



CORPORATE GOVERNANCE RATING INDEX (CGRI) DESIGN

CGRI Recommendations for Jordanian Corporate Governance Code

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CORPORATE GOVERNANCE RATING INDEX (CGRI) DESIGN

CGRI Recommendations for Jordanian Corporate Governance Code

SUSTAINABLE ACHIEVEMENT OF
BUSINESS EXPANSION AND QUALITY (SABEQ)

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INTRODUCTION

The Jordan Securities Commission (JSC) has developed a country-specific, draft Corporate Governance Code (Jordanian Code), applicable to private sector, joint stock companies listed on the Amman Stock Exchange (ASE). Incorporating international best practices adapted from the OECD Principles of Corporate Governance (2004) (OECD Principles), the current draft of the Jordanian Code also incorporates domestic corporate governance norms found in effective domestic legislation (Company Law, Securities Law) and related regulations, as well as the ASE Listing Directives.

The balance of this document contains findings, observations and recommendations designed to assist the JSC in converting the Jordanian Code into a Corporate Governance Rating Index (CGRI), which can be used flexibly to achieve multiple corporate governance policy goals and objectives, including among other things:

- As a JSC “policy monitoring” tool to measure improvements in, and compliance with, domestic corporate governance norms and best practices as expressed in the Jordanian Code;
- As an educational and diagnostic tool for listed issuers and their stakeholders;
- Spur voluntary compliance with higher than legally mandated norms
- Increase public and investment community awareness of issuer compliance with the Jordanian Code, through the public release of listed issuer CGRI ratings and/or rankings; and,
- Support corporate governance compliance disclosures, especially within a ‘comply or explain’ regime.

RECOMMENDATIONS

As the basis for the development of a CGRI in Jordan depends largely on the structure and content of the draft Jordanian Code, a limited review of the current draft was performed.

A. Jordanian Code Drafting Recommendations.

A quick review of the draft Jordanian Code reflects solid content and an excellent effort to adapt the OECD Principles to the domestic Jordanian context, which is no easy task by itself. Often, however, the most difficult task facing drafters is the challenge of organizing and presenting the code’s contents in an accessible manner, which ensures clarity of understanding and its accessibility by corporate stakeholders. The following recommendations relate to suggested improvements designed to address this aspect of the draft Jordanian Code.

1. **Clearly Distinguish Voluntary Norms**, which are subject to the voluntary ‘comply or explain’ regime. The current draft Jordanian Code does not clearly distinguish between measures, which are mandatory under effective Jordanian legislation and those, which are voluntary. Distinguishing clearly, which categories the various Code provisions

belong to will ultimately aid corporate compliance with the 'comply or explain' regime.

2. **Clarify Section Headers and Numbering Scheme**, to improve the clarity of the draft Code's presentation, and to make its contents more easily accessible to stakeholders and end-users. To the extent possible, major high-level sections should be made more consistent with the organization of the OECD Principles. More frequent use should be made of subsection headers to clearly identify the Code's specific areas of domestic focus. This together with a revised numbering scheme (a three level numerical scheme is suggested -- e.g. 1., 1.1, 1.1.1, etc.) will help provide a clearer and consistent structure for the development of the CGRI and for presentation and disclosure of 'comply or explain' results, which are expected to be published in future corporate annual reports. The idea behind this is to provide the greatest degree of parallelism and consistency in presentation to facilitate ease of understanding and future compliance with the Jordanian Code's stated norms.
3. **Incorporate Citations, References and Commentary to relevant OECD Principles and Jordanian Legislation**, to facilitate the educational function and purpose of the Jordanian Code. These elements are missing from the present draft and are absolute essentials to make the code an effective working document for end-users. Based on our work around the world, we have observed that most non-compliance with corporate governance norms stem almost exclusively from a lack of clarity and understanding of the requirements and their underlying legislative sources.
4. **Consider Restructuring or Reorienting the Jordanian Code Around the Voluntary 'Comply or Explain' Norms**, to the extent possible. The ostensible – but not necessarily exclusive - purpose of drafting a corporate governance code is to set attainable corporate governance objectives and goals higher than the minimums mandated by Jordanian legislation. A code where legal minimums predominate leaves no room for promoting attainable improvements on a voluntary basis. A reasonable balance should be struck between mandatory and voluntary provisions. Thus, the primary drafting and organizational effort should be centered around the voluntary 'comply or explain' provisions. Notwithstanding this, the mandatory requirements should be retained in the Jordanian Code-- as either commentary or introductory background to the various voluntary code provisions themselves. A code drafted using this approach will lay a clear and consistent foundation for the organization of the CGRI process, and for the disclosure of issuer compliance with the 'comply or explain' regime in their annual reports.

B. CGRI Drafting Recommendations

A preliminary draft CGRI questionnaire has been developed for discussion purposes based upon the current draft Jordanian Code. The purpose is to demonstrate SABEQ's CGRI design methodology and strategy as further described below.¹ The preliminary draft CGRI questionnaire can easily be adapted and/or modified by JSC staff as they move toward their finalization of the draft Jordanian Code.

1. **Commercial CGRI Product Limitations.** SABEQ's recommendations for the design of a Jordanian CGRI are intended to overcome the limitations reflected in most all of the commercially available corporate governance products. These limitations include, among others:
 - High Cost / Complex Methodologies
 - Scoring Results Not Always Public
 - Varied Corporate Governance Focus
 - Methodologies Not "Monitoring Oriented"
 - Cross-Border Comparisons Are "One Size Fits All"
 - OECD and Country Specific Norms Not Assessed
2. **SABEQ CGRI Questionnaire Strategy.** SABEQ's CGRI questionnaire strategy is designed to complement the Jordanian Code and to support its implementation by listed ASE issuers. The questionnaire is conceptually designed to track most of the key voluntary 'comply or explain' provisions of the Jordanian Code, which listed issuers will be required to disclose in their future corporate annual reports.
3. **The CGRI Questionnaire Should Be Electronically Filed with the JSC** in conjunction with the annual reporting cycle, using an MS Excel or Adobe PDF format, at least, initially before an electronic filing system is implemented. Filing the questionnaire in an electronic format will make it possible to collect the raw data and calculate scoring without resort to a time consuming manual process.
4. **The Choice of CGRI Measures Should Reflect A Policy Driven Perspective, and Establish Voluntary Best Practices Higher Than Legally Mandated Minimums.** It is not necessary that the questionnaire cover each and every voluntary 'comply or explain' element of the Jordanian Code. The JSC should, however, consider carefully, which elements they wish to prioritize or emphasize from a policy perspective. The focus should be on defining CGRI questionnaire measures, which reflect an attainable improvement in Jordan's corporate governance practices beyond the legally mandated minimums, and on a voluntary basis.

¹ SABEQ's preliminary Draft CGRI is attached hereto as Exhibit A. An overview presentation of the use of CGRIs world-wide is attached hereto as Exhibit B.

5. **The CGRI Should Be Monitoring and Benchmark Oriented.** CGRI response data should be collected over time to enable meaningful comparisons in Code compliance. The JSC should use the CGRI to monitor and identify code compliance gaps, which may require adjustments in corporate governance policies and other disclosure related directives. Although the CGRI can and should be adjusted over time as policy priorities shift, or code provisions are amended, frequent year-on-year changes in CGRI measures are to be avoided. Issuers will also require several yearly cycles to adjust their corporate governance practices.

6. **CGRI Measures Should be Objective, Easily Quantified and Scored.** Linguistically, each CGRI measure should be drafted as an affirmative (Yes/No) question or statement, reflecting a Jordanian 'best practice' as derived from the voluntary 'comply or explain' components of the Code.

The question or statement should be drafted objectively -- the practice either exists or is implemented, or it is not. Subjective questions should not be used. As such, only 'yes' answers will be scored and awarded a weighted or un-weighted value. 'No' answers are not scored, and will subsequently require further explanation in the listed issuer's annual report under revised disclosure directives. (No further explanation is required in response to the questionnaire.)

As noted previously, several cycles may be required to see changes and improvements in CGRI responses. Early CGRI results should also be expected to produce low compliance scores, however, improvements will be registered quickly over subsequent cycles as issuers discover what best practices may be easily introduced to yield an improved score and ranking.

7. **Each CGRI Measure Should Include a Brief Narrative 'Justification'** to educate stakeholders as to the policy objective and/or best practice recommended by each measure to facilitate the educational function and purpose of the questionnaire.

8. **Each CGRI Justification Should Also Include Clear Citations to the OECD Principles, Jordanian Legislation and Jordanian Code.** Combining narrative justifications with citations essentially converts the CGRI questionnaire into an effective work plan for the improvement of issuer corporate governance practices.

9. **Weighted Scoring.** Depending on their relative importance and policy priority, weighted scores can be assigned either to individual questions or to whole CGRI category components. SABEQ's preliminary draft CGRI has assigned illustrative weightings only by corporate governance category and in relative proportion to the voluntary provisions identified in the draft Code. The preliminary draft contains 50 Yes/No questions, each worth 2 points, and is designed have a total aggregate raw scoring of 100 points, distributed among 5 identified corporate governance categories, as follows:

CATEGORY	NUMBER OF QUESTIONS	CGRI PERCENTAGE
1. BOARD STRUCTURES AND POLICIES	25	50%
2. STAKEHOLDER POLICIES	5	10%
3. SHAREHOLDER RIGHTS	5	10%
4. FINANCIAL DISCLOSURE & TRANSPARENCY	5	10%
5. AUDIT STRUCTURES & POLICIES	10	20%
TOTALS	50	100%

10. **Public Scoring Presentation.** To increase public and investment community awareness of issuer compliance with the Jordanian Code, the CGRI raw data, weighted scoring (total and sub-categories), and ratings should be publicly disseminated to the investment media via the JSC and ASE websites. Given that the CGRI is based on the voluntary 'comply or explain' elements of the Jordanian Code, this should pose no policy issues for the JSC -- especially as issuers will ultimately be required to disclose the same information, albeit in a slightly different format in their annual reports. If this should still prove problematic, the raw scores can be converted into percentile rankings, which will still permit public benchmarking and ranking of issuer compliance with the CGRI.

C. Drafting Recommendations to Poll Jordanian Legislative Compliance

This section addresses the JSC's expressed desire to design a questionnaire to measure ASE listed issuer compliance with Jordanian Legislative norms (Legislative Compliance). With few exceptions, the basic recommendations applicable to the design of a CGRI under the 'comply or explain' regime remain valid for the design of a Legislative Compliance questionnaire – namely, Recommendations B3, B5-B8. The following observations and recommendations relate to issues which warrant further consideration and discussion:

1. **The JSC Should Identify and Prioritize a Limited Number of Compliance Related Measures to Survey.** As with the CGRI Questionnaire, not every compliance-related measure needs to be surveyed. It is recommended that not more than 15 – 20 high priority issues be surveyed.
2. **Collect Legislative Compliance Data Anonymously.** Listed issuers may be reluctant to complete surveys, accurately or honestly, if non-compliant responses were to be used as admissions of violations, which would result in JSC enforcement actions. The best way to address this would be to collect legislative compliance data anonymously, and to communicate to issuers that such data will not be used as the basis for any enforcement action.

3. **Use Legislative Compliance Data to Determine Policy Effectiveness.** The data should be used to monitor and identify Jordanian legislative compliance gaps, which may require legislative and/or regulatory adjustments in corporate governance and disclosure policies.
4. **Public Presentation of Results.** Unlike the detailed disclosure of 'comply or explain' CGRI results, legislative compliance data results should be disclosed publicly only in aggregated form. The public disclosure of aggregated results could be used as an effective JSC deterrent tool to increase corporate compliance with mandatory norms -- especially if coupled with public JSC announcements that it will focus increased scrutiny in areas of weak surveyed compliance.

APPENDIX A – PRELIMINARY DRAFT CGRI

CATEGORY	NUMBER OF QUESTIONS	CGRI PERCENTAGE
1. BOARD STRUCTURES AND POLICIES	25	50%
2. STAKEHOLDER POLICIES	5	10%
3. SHAREHOLDER RIGHTS	5	10%
4. FINANCIAL DISCLOSURE & TRANSPARENCY	5	10%
5. AUDIT STRUCTURES & POLICIES	10	20%
TOTALS	50	100%

Defined Terms

BOD	Board of Directors
DA	Directive Article
JC	Jordan Corporate Governance Code for Listed ASE Companies
GA	General Assembly
CL	Company Law (XXXX)
SL	Securities Law (XXXX)
OECD	OECD Principles of Corporate Governance
PMS	Performance Measurement System
Stakeholders	This term includes relationships with employees, suppliers, customers, banks and other lenders
SEM	Senior Executive Management

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Category	Questions	Justification	Yes/No	Points
1. Board Structures & Policies	1. BOD Size. The BOD is comprised of not less than 7 and not more than 13 members	BOD size should seek to should achieve a balance between too small and too large. Small boards may not have enough resources and independent members to efficiently carry out their assigned duties and responsibilities. Large boards, conversely, can become too unwieldy and inefficient. [JC 2.0.1a]		
	2. BOD Independence. At least one-third of the BOD members are “independent” as defined by the Jordanian Code of Corporate Governance.	To minimize the potential for internal conflicts of interest, it is recommended that at least one-third of the BOD members be independent from the company’s senior executive management, and as further defined by the JC. [INSERT INDEPENDENCE REQUIREMENTS HERE] [JC2.0.1c]		
	3. Legal Person BOD Members. All legal persons entitled to BOD representation have appointed a named, natural person to serve during the designated term of office	As a best practice, legal person representation should be accomplished, only, by and through a named, designated, natural person of the legal representative. That designated person shall serve the designated term of office, as an elected BOD member. Rotational replacements of such natural persons during the term of office are to be discouraged. Proper BOD participation requires continuity of service. [JC 2.0.3]		
	4. BOD Chairman Independence. The BOD Chairman does not hold any senior executive management position within the company or within any affiliated or subsidiary company.	Good practice calls for the separation of BOD Chairman and any senior executive management position (including CEO) to improve BOD accountability, decision making, and to build strong effective BODs.[JC 2.0.5]		
	5. BOD Qualifications & Training Policy. Have written policies been implemented, which specify the professional qualifications and training requirements for the BOD?	Ensuring the existence of highly efficient BODs requires that all director’s have the appropriate competencies and skills needed to fulfill their board roles beyond the minimum which may be required by effective Jordanian legislation. The adoption of a written policy as to professional qualifications and training requirements is necessary to ensure its implementation. [JC 2.0.6]		

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Category	Questions	Justification	Yes/No	Points
	<p>6. [Alternative 1] Exclusive BOD Membership. All BOD members serve exclusively as a director for the company</p> <p>[Alternative 2] Majority Exclusive BOD Membership. A majority BOD members, including the BOD Chairman, serve exclusively as a director for the company.</p> <p>[Alternative 3] Exclusive BOD Chairman Service. The BOD Chairman serves exclusively as a director for the company.</p>	Although effective Jordanian Law permits BOD members to serve on up to three, non-competing, BODs, international best practice suggests that BOD members should limit their participation on multiple boards. This would include service on affiliated and subsidiary companies of the issuer. This is designed to minimize the potential for conflicts of interest, and to ensure their commitment, focus and loyalty to the company they are elected to serve. [JC 2.0.7b]		
	7. Board Powers. Have written policies and procedures been implemented, which authorize BOD access to all required corporate information and data to enable them to perform their duties and to be aware of all aspects of the company's work?	Timely and complete access to all corporate data and information is paramount to the BOD's ability to carry out its duties and responsibilities efficiently and effectively. [JC 2.0.9]		
	8. BOD Performance Measurement. Has the BOD implemented a performance measurement process to assess BOD performance collectively, and individually, against established benchmarks?	The OECD recommends as a best practice that BODs adopt appropriate mechanisms to annually evaluate board performance against clearly defined benchmarks -- for the BOD collectively, and on each BOD member, individually. Performance measurement is an essential corporate tool, which should be used to determine BOD compensation, training needs, and whether renewal terms or term limits might be warranted for sub-optimal performance. [JC 2.1.1; JC 2.1.12]		
	9. BOD Accountability. Has an employment contract or other legally binding agreement been negotiated for every BOD member, which specifies their individual duties and responsibilities?	Specific terms of reference should be incorporated into an employment contract for each BOD member, including designated BOD members representing legal persons. This will help ensure that each BOD member is held responsible and accountable for their performance. [JC 2.1.1; JC 2.1.12]		

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Category	Questions	Justification	Yes/No	Points
	10. SEM Qualifications & Training. Have written policies been implemented, which specify the professional qualifications and training requirements for each SEM position?	A written policy covering the professional qualifications and training requirements for all senior executive management positions should be adopted by the BOD, to ensure they are appropriately trained to efficiently carry out their defined management roles. [JC 2.0.10]		
	11. SEM Performance Measurement. Has the BOD implemented a performance measurement process to assess SEM performance collectively, and individually, against established benchmarks?	The BOD is responsible for setting an overall strategic corporate plan via specific policies, strategies and objectives. In order to measure progress towards achieving the strategic plan, an effective performance measurement system [e.g. Balanced Scorecard] is required. Executive management and the CEO should be involved in the benchmark setting process against which their individual performance and their compensation should be linked and measured. The monitoring mechanism should provide regular performance reports to the BOD during the course of the fiscal year. [JC 2.1.10; JC 2.1.11; JC 2.1.13]		
	12. Management Accountability I. Has an employment contract or other legally binding agreement been negotiated for each employee holding a SEM position, which specifies their individual duties and responsibilities?	Specific contractual terms of reference form the basis to hold senior executive management accountable for their performance or lack thereof. [JC 2.1.11; 2.1.13]		
	13. Management Accountability II. Has the BOD critically reviewed the performance of each employee holding a SEM position for the past year against a set of pre-defined goals and standards, and have they developed new goals and standards for the coming year?	Active BOD oversight regarding the evaluation and performance of its senior executive management is critical to realizing the benefits of any PMS. [JC 2.1.11; 2.1.13]		

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Category	Questions	Justification	Yes/No	Points
	14. Corporate Performance Measurement. Has an independent performance measurement system been implemented, which measures company performance effectiveness towards pre-defined objectives?	One of the more significant innovations in modern corporate management practice is the use of performance measurement systems (PMS) to measure corporate performance and effectiveness against pre-defined objectives. Introducing accountability into corporate management activities requires an ability to measure performance objectively. Implementation of a PMS (such as a Balanced Scorecard) at the company, subsidiary and subsidiary levels should be explored through the development of training initiatives for BOD members and senior executive management. [JC 2.1.1]		
	15. Risk Management. Has the BOD adopted and implemented a company risk management plan, which clearly identifies and evaluates the various risk exposures affecting future business and financial performance, and the company's compliance with effective Jordanian law?	The OECD, JC and effective Jordanian Disclosure Directives emphasize the importance of identifying, assessing, and disclosing material risk factors facing Jordanian listed companies and the measures taken to mitigate their impact. Risk related factors should also be discussed in the BOD report submitted in connection with the Annual Reporting process. [JC 2.1.4; JC 2.1.12]		
	16. Insider Trading Policy. Has the BOD implemented written policies and procedures applicable to all employees, BOD members and SEM, establishing prohibitions on insider trading and limitations on the trading of the company's listed securities during defined periods before and after the required filing of JSC financial disclosures?	SL Article 108(a), (b) and (c) prohibit the trading of securities based on inside information and the disclosure of such information. It is strongly encouraged that listed companies adopt written corporate policies and procedures to actively discourage insider trading and to limit the trading of the company's listed securities during defined periods before and after the required filing of JSC financial disclosures under the various articles of the JSC Disclosure Directives. [JC 2.1.8; JC 5.0.7]		

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Category	Questions	Justification	Yes/No	Points
	17. BOD / SEM Incentive Plans. Has an incentive system or plan been implemented for BOD members and SEM positions, which clearly links objective BOD / SEM performance criteria with their compensation and bonuses?	Compensation and incentive plans for BODs and senior executive management should be clearly linked to their individual performance evaluations and the performance of the company as a whole.[JC 2.1.15]		
	18. Mission Statement. Has a written "Mission Statement" been adopted and disseminated by the BOD, which clearly defines key corporate objectives and priorities, and takes into account the interests of the company's various stakeholders?	OECD and JC emphasize the need to publicly disclose key corporate objectives and report on the extent to which these objectives have been realized. This can ideally be accomplished through the Annual Report process, as well as through the adoption of an organizational "Mission Statement". [JC 2.1.1; JC 2.1.16]		
	19. Corporate Governance Policy. Has the BOD implemented written policies and procedures designed to establish the company's corporate governance goals and objectives beyond legally mandated minimums, and a process to evaluate their implementation?	The extent to which the company has adopted corporate governance policies and procedures establishing goals and objectives beyond the legally mandated minimums should be memorialized in a written corporate governance policy, a summary of which should be published as an integral part of the company's annual report. [JC 2.1.17]		
	20. Nominations and Compensation Committee I. Has the BOD established a Nominations and Compensation Committee to identify and nominate qualified candidates for BOD service, and to set policies related to their compensation?	The OECD notes that boards should establish specialized committees, including a Nomination and Compensation committee, among others, to support the functions of the full BOD. [JC 2.2.1]		
	21. Nominations and Compensation Committee II. Has the BOD established a Nominations and Compensation Committee, which is chaired by an independent BOD member as defined by the JC?	To maintain objectivity in the nomination, election and compensation setting processes, this committee should be chaired by an independent BOD member.[JC 2.2.2]		
	22. Nominations and Compensation Committee III. The Nominations and Compensation Committee is composed of not less than three, non-executive BOD members, at least two of which are independent as defined by the JC	To avoid the potential for internal conflicts of interest, this committee should be composed of not less than three, non-executive BOD members, at least two of which (including the committee chair), should be independent. [JC 2.2.2]		

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Category	Questions	Justification	Yes/No	Points
	23. Nomination and Compensation Committee IV. Have written policies and procedures been implemented, which define the duties and activities of the Nomination and Compensation Committee, and which authorizes their access to all required corporate information and data to enable them to perform their duties?	The nomination, election and compensation setting processes should be based on clearly written principles, policies and procedures, and be completely transparent. The committee should have complete access to all relevant corporate data and information relevant to carry out its duties and responsibilities efficiently and effectively. [JC 2.2.3; JC 2.2.6]		
	24. BOD Notice Requirements. For the past fiscal year, was at least three (3) days advance written notice provided to all BOD members for all scheduled BOD meetings, together with a written agenda and summary information related to the agenda subjects to be discussed?	Written advance notice of scheduled BOD meetings together with a written agenda and summary information related to the agenda subjects to be discussed should be considered a best practice to implement across Jordanian listed companies. The adoption of such a practice would not preclude meetings with lesser notice under exigent circumstances. [JC 2.3.1]		
	25. BOD Meeting Frequency. The BOD has met at least once each month during the past fiscal year.	Although CL Article 155(d) mandates that the BOD meet at least 6 times a year with not more than 2 months between meetings, effective monitoring and execution of BOD responsibilities probably requires more frequently than the minimum requirements of Jordanian legislation. Meeting at least once each month should be considered a best practice. [JC 2.3.4]		

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Category	Questions	Justification	Yes/No	Points
2. Stakeholder Policies	1. Stakeholder Policies I. Has a written policy been adopted and disseminated by the BOD, which defines the required Annual Report disclosure of all material financial and business dealings with stakeholders, including related party transactions?	The OECD stresses the importance of disclosing all material financial and business transactions with stakeholders and related parties. [JC 2.1.16]		
	2. Stakeholder Policies II. Has the BOD implemented a process by which stakeholders are requested to provide reports on their financial and business dealings with the company, and any of its affiliates?	It is strongly suggested that an independent process be established to document stakeholder financial and business dealings directly from the stakeholders. Such a process will improve the credibility of company's reporting on their stakeholder dealings, as well as aid in assessing the quality of the policy's implementation. [JC 2.1.16]		
	3. Ethics Code. Has a comprehensive Ethics Code been implemented in collaboration with employees and other stakeholders, which governs their professional behavior, and introduces procedures for confidential reporting of unethical or illegal activities?	The OECD emphasizes the importance of requiring BODs to develop, implement and communicate compliance programs for internal codes of ethics at the company and affiliate levels. As a key risk management process, such a code should be adopted in consultation and collaboration with stakeholders and employees, and introduce mechanisms to ensure the protection of those reporting violations. [JC 2.1.16]		
	4. Employee Incentive Plans. Has an incentive system or plan been implemented, which clearly links objective employee performance criteria with their compensation and bonuses	Employee incentive systems or plans should be introduced that clearly link performance levels with compensation and bonuses. [JC 2.1.1; JC 2.1.16]		
	5. Employment Policies. Have written policies been implemented and disseminated to all employees covering employment security, training, promotion, dismissal and mobility?	Respecting employee rights as the most important segment of corporate stakeholders is central to the success of any company. Adopting and implementing clear, written policies on core employment rights and issues is essential to ensuring fundamental fairness to workers. [JC 2.1.16]		

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Category	Questions	Justification	Yes/No	Points
3. Shareholder Rights	1. Cumulative Voting. The company utilizes a cumulative voting system to elect BOD members at its annual General Assembly meetings	Cumulative voting is considered a best practice in support of minority shareholder rights. In a cumulative voting system, each shareholder has a number of votes equal to the number of shares held multiplied by the number of directors to be elected. The shareholder can allocate these votes in whatever proportion preferred -- e.g. all votes could be cast for one candidate or divided equally among the candidates. The effect of cumulative voting is to give minority shareholders the power to elect at least one BOD candidate — by disproportionately allocating their votes to that candidate — even though the majority of shareholders did not cast votes in support of the candidate. [JC 2.0.1b]		
	2. GA Notice Requirements I. For the past fiscal year, was at least 30 calendar days advance written notice provided to all shareholders of record entitled to attend the Annual General Assembly?	Written advance notice of GA meetings, together with a written agenda, related summary information, and copies of reports to be considered should be a best practice to implement for Jordanian listed companies. Providing advance notice and related documentation would enable shareholders an adequate opportunity to prepare, attend and to participate fully at GAs in exercise of their shareholder rights. [JC 3.0.3]		
	3. GA Notice Requirements II. For the past fiscal year, did the written notice of the Annual General Assembly include a written agenda, together with summary information related to the agenda items to be discussed?	See 3.2 above. [JC 3.0.3]		
	4. GA Governance I. The company has adopted a written policy prohibiting the introduction and consideration of topics not previously disclosed in the agenda accompanying the notice of the General Meeting.	Good corporate governance practice requires companies to respect shareholder rights by conducting GA meetings fairly, openly and transparently. Last minute changes to the previously announced GA agenda and proposed resolutions manifestly infringe on shareholder rights. [JC 3.0.4]		

Category	Questions	Justification	Yes/No	Points
	5. Shareholder Rights I. Has the company has adopted a written policy and procedure to extend pre-emptive rights to its existing shareholders in connection with an offering of shares in private placement to new investors.	Preemptive rights are designed to provide for the possibility of proportional participation of all existing shareholders in a subsequent private placement of shares. Existing shareholders or any subset of existing shareholders should not be unilaterally precluded from participating in such share offerings, which would otherwise potentially infringe and dilute their ownership rights and interests, respectively. [JC 4.1.7]		

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Category	Questions	Justification	Yes/No	Points
4. Financial Disclosure & Transparency	1. Disclosure & Transparency Policy. Has the BOD implemented written policies and procedures to ensure its timely compliance with effective Jordanian legislation mandating the disclosure of corporate financial and other material information?	International best practice, the OECD and Jordanian legislation, all stress the importance of timely and accurate disclosure of all conditions that may affect corporate business and especially financial performance. The inability to file timely reports is not only increasingly viewed as a serious violation of Jordanian legislation, it is viewed as a leading indicator of deficiencies in the internal audit and financial controls and processes typically associated with a properly managed company, which can negatively impact the company's market valuation.[JC 2.1.7]		
	2. Material Events. Has the BOD implemented a policy mandating the immediate and timely disclosure of all information relating to material events affecting its financial performance in accordance with effective Jordanian legislation?	See also 4.1, above. Having in place a BOD policy mandating the immediate and timely disclosure of all information relating to material events affecting all aspects of business and financial performance is strongly recommended. The failure to make such disclosures on a timely basis increases regulatory scrutiny for potential insider trading violations. Information relating to material events encountered by the company should be incorporated and discussed in the Annual Report. [JC 5.0.1]		
	3. Internet Website I. Does the company maintain an internet web site, which can be used to publish information relevant to its activities?	International best practice strongly suggests that listed companies publish all material financial and non-financial information via the internet. The JSC strongly recommends that ASE listed companies establish and maintain corporate websites to post all information relevant to its activities, including, but not limited to, all information and documents for which public disclosure is required under Jordanian legislation. Internet disclosure has increasingly become the media of choice for the dissemination of financial market data and information, as it reaches the widest possible audience of stakeholders in the most cost-effective manner. [JC 5.0.4]		

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Category	Questions	Justification	Yes/No	Points
	4. Internet Website II. For the past fiscal year, did the company publish all of its JSC filed periodic financial reports (Quarterly, Semi-Annual, Preliminary-Annual, and Annual) in full on the company internet website?	See 4.3, above. All information and documents for which public disclosure is required under Jordanian legislation should be posted in full on the company's internet website.[JC 5.0.1; JC 5.0.2; JC 5.0.4]		
	5. Internet Website III. Does the company publish all of its JSC material events filings in full on the company internet website?	See 4.1 - 4.4, above. [JC 5.0.1; JC 5.0.2; JC 5.0.4]		

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Category	Questions	Justification	Yes/No	Points
5. Audit Structures & Policies	1. Related Party Transactions Disclosure. The BOD has implemented a written policy to disclose all material financial and business transactions with stakeholders, and to disclose summary details of each related party transaction in its Annual Report.	See 2.1 and 2.2, above. [JC 5.2.12] [CHECK DRAFT JC FOR POSSIBLE DUPLICATION WITH JC 2.1.16]		
	2. Related Party Transactions Review. The Audit Committee has implemented a written policy to review and approve all related party transactions prior to their ratification by the full BOD.	Audit Committee review of related party transactions reduces the potential risks associated with related party transactions, including conflicts of interest and less than arm's length financial terms. A two-step review process by the Audit Committee, followed by BOD review is a recommended best practice. [JC 5.2.12]		
	3. Audit Committee I. Has the BOD established an independent Audit Committee, which is chaired by an independent BOD member?	The JC and OECD recommend the establishment of a specialized Audit Committee to support the functions of the full BOD. The Audit Committee Chairman should be a non-executive BOD member and support BOD oversight of an internal audit department. [JC 2.2.2]		
	4. Audit Committee II. The Audit Committee is composed of not less than three, non-executive BOD members, at least two of which are defined as independent.	Audit Committee composition should be designed to minimize the potential for conflicts of interest, and to maintain the independence and objectivity of its decision making. [JC 2.2.2]		
	5. Audit Committee III. Have written policies and procedures been implemented, which define the duties and activities of the Audit Committee, and which authorize their access to all required corporate information and data to enable them to perform their duties?	The governance and operational competencies of the Audit Committee should be based on clearly written principles, policies and procedures, and be completely transparent. The committee should have complete access to all relevant corporate data and information relevant to carry out its duties and responsibilities efficiently and effectively. [JC 2.2.3; JC 2.2.6]		

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Category	Questions	Justification	Yes/No	Points
	6. Audit Committee Qualifications I. All audit committee members have professional experience in either of the fields of finance, accounting or auditing, with at least one member possessing an academic or professional certificate in one of the aforementioned or related fields.	The operational effectiveness of the Audit Committee requires that its member directors have the appropriate competencies and skills needed to fulfill their board roles beyond the minimum which may be required by effective Jordanian legislation. The adoption of a written policy as to professional qualifications and training requirements is necessary to ensure its implementation [JC 5.1.1]		
	7. Audit Committee Meeting Frequency. The audit committee has met at least a once every other month during the past fiscal year.	Effective monitoring and execution of Audit Committee responsibilities requires regularly scheduled meetings. Meeting at least once each month should be considered a best practice [JC 5.1.2]		
	8. External Audit Meetings. The Audit Committee has met at least once during the past fiscal year with the company's external auditor in the absence of senior executive management to discuss the findings and results of the external auditor's report.	Meeting with the company's external auditor in the absence of senior executive management is essential to having an open and candid discussion of the adequacy of internal audit and financial controls and processes typically associated with a properly managed company. [JC 5.1.4]		
	9. External Auditor Policy I. The BOD has implemented a written external auditor rotation policy, requiring a change in designated auditor at least once every four years, and with at least a two-year waiting period before re-appointment of the same outgoing auditor	The JC strongly recommends the adoption of a written policy to rotate the designated corporate external auditor to avoid conflicts of interest and to maintain external auditor objectivity in the performance of their duties. [JC 5.4.2]		
	10. External Auditor Policy II. The BOD has implemented written policies governing the delivery and performance of external auditor services, including, among other things, anti-conflict-of-interest guidelines limiting the delivery of services exclusively to auditing and prohibiting the performance of other unrelated technical, administrative or consulting services.	An external auditor's engagement to perform corporate audit and accounting services must be exclusive, and incorporate the requirements of the company's written, External Auditor Policy. The delivery of services must be limited exclusively to auditing and accounting services, and prohibit the performance of other unrelated technical, administrative or consulting services. [JC 5.3.3; JC 5.4.1-6]		

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Category	Questions	Justification	Yes/No	Points
RESERVED - UNALLOCATED QUESTIONS				
Board Structures & Policies	BOD Length of Service. The company's memorandum of association establishes BOD terms of service of [not less than 3 and] not more than 4 years	[JC 2.0.2]		
Board Structures & Policies	BOD Training Certification. Has every BOD member successfully completed an external, certificated training program designed to enhance their performance and skills as a Director?	[JC 2.0.6]		
Board Structures & Policies	Board Powers II. Have written policies and procedures been implemented, which authorize the BOD, and its sub-committees, to retain external consultants at company expense?	[JC 2.0.11; JC 5.1.3]		
Shareholder Rights	GA Governance II. The company has adopted a written policy which permits shareholders sufficient time to introduce shareholder resolutions, BOD candidate nominations, and agenda items for discussion at the General Assembly.	[JC 3.0.5; JC 2.1.14]		
Shareholder Rights	Shareholder Rights II. Has the company has adopted a written policy and procedures, which permits 20% of its shareholders to call an extraordinary assembly meeting to consider a request to replace one or more members of the BOD, including the BOD Chairman.	[JC 4.1.11]		
Financial Disclosure & Transparency	Environmental and Community Policies. Has the BOD implemented a policy requiring it to disclose the environmental impact of its activities generally, and on the local community	[JC 5.0.6]		
Audit Structures & Policies	Audit Committee Qualifications II. At least one audit committee member has worked professionally in either of the fields of finance, accounting or auditing, and possesses an academic or professional certificate in either of the aforementioned or related fields.	[JC 5.1.1]		
Audit Structures & Policies	External Auditor Policy III. The BOD has implemented a written policy requiring the external auditor to exclusively provide only auditing services to the company during the term of the auditor's appointment, and specifically prohibiting the performance of other unrelated technical, administrative, or business consulting services during such appointment.	[JC 5.3.3]		

APPENDIX B – CGRI DESIGN PRESENTATION



Corporate Governance Rating Index (CGRI) Design: A Tool to Drive Corporate Governance Improvement

Geoffrey M. Elkind
BearingPoint, Emerging Markets Division

April 6, 2008

Presentation Outline

- Why Rate Corporate Governance?
- Commercial Corporate Governance Rating Systems
- An Important Evolving Tool: Country-Specific CGRIs
- Examples of CGRIs in Use & Under Development

Why Rate Corporate Governance?

- A Global Trend
 - Corporate Governance Ratings Increasingly Sought Out by Investors
 - An Important Element in Establishment of Credit Ratings
- Expected by Investment Management and Credit Institutions
- An Aggregate Measure of Investment Risk
- Facilitates Access to Capital and Credit Markets
- Increases Corporate Visibility in the Investment Community
- Improves Regulatory Policy Making Decisions

Presentation Outline

- Why Rate Corporate Governance?
- Commercial Corporate Governance Rating Systems
- An Important Evolving Tool: Country-Specific CGRIs
- Examples of CGRIs in Use & Under Development

Commercial CGRI Systems - Challenges

- High Cost / Complex Methodologies
- Scoring Results Not Always Public
- Corporate Governance Focus Varies
- Results Not Always Uniform
- Methodologies Not “Monitoring” Oriented
- Cross Border Comparisons Are “One Size Fits All”
- OECD and Country Specific Norms Not Assessed

Commercial Corporate Governance Vendors (Coverage and Cost Basis)

Vendor	Coverage	Cost / Basis
The Corporate Library	1750 (US)	Up to \$1,200 (Annual Subscription)
International Shareholder Services	7500 (US/Intl)	Up to \$17,000 (Per Rating)
Governance Metrics International	1625 (Intl)	Up to \$50,000 / Year (Annual Subscription)
Standard & Poor's	Europe & US	Up to \$200,000 (Per Rating)
Deminor Ratings	300+ (Europe)	Cost Not Disclosed (Annual Subscription)

Commercial Corporate Governance Vendors (Scoring and Structure)

Vendor	Scoring	Year	Categories*	Measures
The Corporate Library	A to F	2000	4	>1,100
International Shareholder Services	100 to 0	2001	8	61
Governance Metrics International	10 to 1	2002	7	600
Standard & Poor's	10 to 1	1998	4	~100
Deminor Ratings	10 to 1	1998	4	300

*See Appendix A for Category Components



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Presentation Outline

- Why Rate Corporate Governance?
- Commercial Corporate Governance Rating Systems
- An Important Evolving Tool: Country-Specific CGRIs
- Examples of CGRIs in Use & Under Development

Why Develop and Use a CGRI?

- You Cannot Manage What You Cannot Measure
- CGRI as a Stand Alone Regulatory Policy Management Tool
 - To Facilitate National Corporate Governance Policy Goals:
 - Improve Corporate Governance
 - Improve Financial Transparency and Disclosure
 - Improve Access to Capital and Credit Markets
 - Increase Corporate Visibility in the Investment Community
 - Improves Regulatory Body Policy Decision Making
- CGRI Ratings Motivate Voluntary Corporate Governance Compliance
 - Drives Voluntary Compliance with Higher than Minimum Standards
 - Guides Internal Improvements in Corporate Governance
 - Improves Corporate Performance and Efficiency

Country Specific CGRI Monitoring Systems: Best Practice Design Attributes

- Policy Driven Perspective
- Monitoring and Benchmark Oriented
- Incorporates Measures Aligned With OECD and Country Specific Norms
- Sets Higher Standards Beyond Legally Mandated Minimums
- Includes Justifications to Educate End Users
- References Relevant OECD and Country Specific Provisions
- Uses Objective, Easily Quantified and Scored Measures
- Voluntary Compliance Coupled With a 'Comply or Explain' Regime

Presentation Outline

- Why Rate Corporate Governance?
- Commercial Corporate Governance Rating Systems
- An Important Evolving Tool: Country-Specific CGRIs
- Examples of CGRIs in Use & Under Development

Country Specific CGRI Monitoring Examples:

German DVFA CGRI Design Attributes

DVFA – German Society for Financial Analysis and Asset Management

- Based on German Corporate Governance Code
 - Administered by German Corporate Governance Code Commission
 - Updated Annually to Reflect Changes in German Legislation
 - Declaration of Conformity Required in Annual Reports
- Incorporates International and Domestic Norms
- Sets Higher Standards Beyond Legally Mandated Minimums
- Voluntary Self-Assessment Monitoring Tool
- 5 Corporate Governance Categories / 40 Questions
- Simple Quantitative “Yes”/“No” Weighted Scoring/0-100% Scale
- Tracks and References Relevant Code Provisions
- Applies to Listed and Non-Listed Private Sector Companies



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Country Specific CGRI Monitoring Examples:

German DVFA CGRI Structure

German DVFA CGRI Scorecard Structure www.dvfa.de

DVFA – 5 Categories	40 Questions
• Shareholders and General Meeting	5
• Management	9
• Supervisory Board	17
• Transparency	6
• Accounting	3

Country Specific CGRI Monitoring Examples:

China CGRI Design Attributes

SASAC – State Owned Assets Supervision & Administration Commission

- Used By SASAC as Public Enterprise CGRI and PMS Monitoring Tool
- Based on Chinese Corporate Governance Codes
- Incorporates International and Domestic Norms
- Sets Higher Standards Beyond Legally Mandated Minimums
- Differentiates Between 100% and <100% Owned Public Enterprises
 - 100% SOE → 4 Categories / 72 Questions
 - <100% SOE → 5 Categories / 84 Questions
- Simple Quantitative “Yes”/“No” Weighted Scoring/0-100% Scale
- Tracks and References Relevant Code Provisions
- Includes Educational Justifications

Country Specific CGRI Monitoring Examples:

China CGRI Structure

China Public Enterprise CGRI Structure

Category	100% Government Owned SOEs	Less than 100% Government Owned SOEs
I. Role of the Board of Directors	22	22
II. Transparency & Disclosure	18	19
III. Audit	24	20
IV. Stakeholders & Corporate Citizenship	8	8
V. Equitable Treatment of All Shareholders	- - -	15
Total number of measures (questions)	72	84

Country Specific CGRI Monitoring Examples: Egyptian Preliminary CGRI Attributes

- Designed as a Public Enterprise CGRI and PMS Monitoring Tool
- Based on Country Specific CGRI Code
 - Egyptian Code of Corporate Governance for Public Sector Enterprises
- Incorporates International and Domestic Norms
 - OCED Guidelines on the Corporate Governance of SOEs
 - Law 203 (Holding Companies)
 - Law 97 (Public Sector Organizations)
 - Law 61 (Public Authorities)
- 5 Corporate Governance Categories / 40 Questions
- Sets Higher Standards Beyond Legally Mandated Minimums
- Applies to 100% State Owned Public Enterprises/Economic Authorities
- Simple Quantitative “Yes”/“No” Weighted Scoring/0-100% Scale
- References Relevant Code Provisions and Educational Justifications

Country Specific CGRI Monitoring Examples

Egyptian Preliminary CGRI Structure

Preliminary Egyptian CGRI

Categories	Number of Questions
1. Board Structures and Policies	10
2. Audit	5
3. Financial Disclosure and Transparency	10
4. Stakeholder Relations	5
5. Executive Governance Provisions	10
TOTAL	40

Appendix A.1 – Commercial CGRI System Categories

The Corporate Library (TCL) www.thecorporatelibrary.com

TCL – 4 Categories / >1,100 Measures
• Board Compensation & Succession Planning
• CEO Compensation Practices
• Takeover Defenses
• Board Level Accounting Practices

Institutional Shareholder Service (ISS) www.issproxy.com

ISS CGQ - 8 Categories – 61 Measures
• Board Structure & Composition
• Director Education
• D&O Stock Ownership
• Executive & Director Compensation
• Charter & Bylaw Provisions
• Law of the State of Incorporation
• Qualitative Factors
• Audit Issues

Appendix A.2 – Commercial CGRI System Categories

Governance Metrics International (GMI) www.gmiratings.com

GMI Categories – 7 Categories – 600 Measures
• Board Accountability
• Executive Compensation
• Shareholder Rights
• Reputational & Social Responsibility Issues
• Financial Disclosure & Internal Controls
• Market for Control
• Ownership Base & Potential Dilution

Standard & Poor's (S&P) www.standardandpoors.com

S&P – 4 Categories / 100 Measures
• Board Structure & Policies
• Financial Transparency & Disclosure
• Stakeholder Relations
• Ownership Structure

Appendix A.3 – Commercial CGRI System Categories

Deminor Ratings www.deminor.com

Deminor – 4 Categories / 300 Measures
• Board Structure & Functioning
• Corporate Governance Disclosure
• Commitment to Shareholder Value
• Rights & Duties of Shareholders

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About the author:

Mr. Geoffrey M. Elkind is a licensed securities and commodities attorney and currently serves as the Global Corporate Governance and Capital Markets Practice Leader at BearingPoint, Inc. Mr. Elkind has over 25 years of extensive domestic and international financial market business and securities regulatory experience and institution building with an emphasis on the practical implementation of IOSCO and OECD Principles affecting securities and commodities market regulation, risk-based supervision, corporate governance, enforcement, disclosure, compliance, and self-regulatory organizations, among others. Mr. Elkind has substantial international consulting experience in the delivery of technical assistance in Egypt, Iraq, Jordan, China, Russia, Kyrgyzstan, Ukraine, Uzbekistan, and Montenegro, among other countries.

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