



Draft Amendments to the Corporate Governance Regulations

A) Introduction

As part of the Capital Market Authority's ("CMA") strategic objectives to regulate and develop the Capital Market, and based on the Capital Market Law issued by Royal Decree No. (M/30) Dated 2/6/1424H, and the Companies Law issued by Royal Decree No. (M/3) dated (28/1/1437 H), the CMA Board issued its resolution to publish the amended Corporate Governance Regulation "Draft Amendments" for public consultation for a period of (30) calendar days ending on 26/7/1442H corresponding to 10/3/2021G.

B) Objectives of the Draft Amendments and its main elements:

The Draft Amendments aim to strengthen the internal controls of listed companies on the Exchange, and develop the provisions regulating board members' independence in line with best practices and international standards.

The main elements of the Draft Amendments are as follows:

- a) Changing the following Articles of the Corporate Governance Regulation related to internal audit's activities from "guiding articles" to "mandatory articles" aiming to strengthen listed companies' internal controls:
 - Article 76 related to composing of an internal audit unit or department;
 - Article 77 related to the internal audit plan; and
 - Article 78 related to the internal audit report.
- b) Amending Article 39 of the Corporate Governance Regulation relating to the board of directors' and the executive management training to include training and qualifying members of the committees formed under the Regulation thereof.
- c) Amending Paragraph (c) of Article 20 of the Corporate Governance Regulation by stating the cases related to businesses and contracts that are executed for the Company's account which negate the independence of an independent board member, and amending the scope of the definition of the term "relatives" in order to implement Article 20 of the Corporate Governance Regulation, in accordance with best practices and international standards.

C) Receiving public views

The CMA, with full gratitude, would receive the opinions and comments of relevant and interested persons, through the prescribed form via the following email (Laws.Regulations@cma.org.sa).

All comments will be taken into full consideration for the purpose of finalizing the Draft Amendments.



Draft Amendments to the Corporate Governance Regulations

D) Proposed amendments to the Corporate Governance Regulations compared with the current provisions:

Corporate Governance Regulations		
	Current Provisions	Provisions after Proposed Amendments
1	<p>Article 20: Issues Affecting Independence</p> <p>c) By way of example, the following negate the independence requirement for an Independent Director:</p> <p>...</p> <p>6) if he/she is an employee or used to be an employee, during the preceding two years, of the Company, <u>of any party dealing with the Company</u> or any company within its group, <u>such as external auditors or main suppliers</u>; or if he/she, during the preceding two years, held a controlling interest in <u>any such parties</u>;</p> <p>7) if he/she has a direct <u>or indirect</u> interest in the businesses and contracts executed for the Company's account;</p>	<p>Article 20: Issues Affecting Independence</p> <p>c) By way of example, the following negate the independence requirement for an Independent Director:</p> <p>...</p> <p>6) if he/she is an employee or used to be an employee, during the preceding two years, of the Company or any company within its group; or if he/she, during the preceding two years, held a controlling interest in <u>the Company, or any party dealing with the Company or any company within its group, such as external auditors or main suppliers</u>;</p> <p>7) if he/she <u>or any of his/her relatives</u> has a direct interest in the businesses and contracts executed for the Company's account;</p> <p>8) <u>if he/she or any of his/her relatives, individually or collectively, own (5%) or more of an entity or a company that has businesses and contracts with the company or any company within its group.</u></p> <p>9) <u>if he/she or any of his/her relatives is a board member, a senior executive, or a member of a board of managers in an entity or a company - except for the company's affiliates - that has businesses and contracts with the company, in any of the following cases:</u></p> <p style="margin-left: 20px;">a. <u>In the event that the business or contract includes preferential terms.</u></p> <p style="margin-left: 20px;">b. <u>In the event that the total amount of the business or contract - or the total amount of the businesses and contracts - exceeds 1% of the company's revenues according to the latest audited financial statements or exceeds 3 million Saudi riyals, whichever is less, where such business or contract is with a listed joint stock company.</u></p> <p style="margin-left: 20px;">c. <u>In the event that the total amount of the business or contract - or the total amount</u></p>



Draft Amendments to the Corporate Governance Regulations

Corporate Governance Regulations		
	Current Provisions	Provisions after Proposed Amendments
		<p>of the businesses and contracts - exceeds 1% of the company's revenues according to the latest audited financial statements or exceeds one million Saudi riyals, whichever is less, where such business or contract is with a company or entity other than a listed joint stock companies.</p> <p>...</p> <p>e) For the purpose of implementing this Article, the term "relatives" shall not include grandfathers and grandmothers and their ancestors, and grandchildren and their descendants.</p>
2	<p>Article 25: Oversight over the Executive Management</p> <p>The Board shall form the Executive Management of the Company, regulate its operating procedures, monitor and oversee it and ensure that it performs the duties assigned to it, and to achieve this, the Board shall:</p> <p>...</p> <p>4) appoint the manager of the internal audit unit or department, or the internal auditor and dismiss him and determine his remuneration, if any;</p>	<p>Article 25: Oversight over the Executive Management</p> <p>The Board shall form the Executive Management of the Company, regulate its operating procedures, monitor and oversee it and ensure that it performs the duties assigned to it, and to achieve this, the Board shall:</p> <p>...</p> <p>4) appoint the manager of the internal audit unit or department, or the internal auditor and dismiss him and determine his remuneration;</p>
3	<p>Article 39: Training ⁶</p> <p>The Company shall pay adequate attention to the training and preparation of the Board members and the Executive Management, and shall develop the necessary programmes required for the same, taking the following into account:</p> <p>1) preparing programmes for the recently appointed Board members and Executive Management to familiarise them with the progress of the Company's business and activities, particularly the following:</p> <ol style="list-style-type: none"> a. the strategy and objectives of the Company; b. the financial and operational aspects of the Company's activities; c. the obligations of the Board members and their duties, responsibilities and rights; 	<p>Article 39: Training ⁶</p> <p>The Company shall pay adequate attention to the training and preparation of the Board members, members of committees formed as per these regulations and the Executive Management, and shall develop the necessary programmes required for the same, taking the following into account:</p> <p>1) preparing programmes for the recently appointed Board members, members of committees formed as per these regulations and Executive Management to familiarise them with the progress of the Company's business and activities, particularly the following:</p> <ol style="list-style-type: none"> a. the strategy and objectives of the Company; b. the financial and operational aspects of the Company's activities;



Draft Amendments to the Corporate Governance Regulations

Corporate Governance Regulations		
	Current Provisions	Provisions after Proposed Amendments
	<p>d. the duties and competencies of the committees of the Board.</p> <p>2) developing the necessary mechanisms for Board members and the Executive Management to continuously enroll in training programmes and courses in order to develop their skills and knowledge in the fields related to the activities of the Company.</p> <p>_____</p> <p>6 Guiding Article</p>	<p>c. the obligations of the Board members and their duties, responsibilities and rights;</p> <p>d. the duties and competencies of the committees of the Board.</p> <p>2) developing the necessary mechanisms for Board members, <u>members of committees formed as per these regulations</u> and the Executive Management to continuously enroll in training programmes and courses in order to develop their skills and knowledge in the fields related to the activities of the Company.</p> <p>_____</p> <p>6 Guiding Article</p>
4	<p>Article 55: Competencies, powers and responsibilities of the Audit Committee</p> <p>The audit committee shall be competent in monitoring the Company's activities and ensuring the integrity and effectiveness of the reports, financial statements and internal control systems. The duties of the audit committee shall particularly include the following:</p> <p>...</p> <p>b) Internal Audit:</p> <p>...</p> <p>3) monitoring and overseeing the performance and activities of the internal auditor and internal audit department of the company, <u>if any</u>, to ensure the availability of the necessary resources and their effectiveness in performing the assigned activities and duties. <u>If the Company has no internal auditor, the committee shall provide a recommendation to the Board on whether there is a need to appoint an internal auditor.</u></p>	<p>Article 55: Competencies, powers and responsibilities of the Audit Committee</p> <p>The audit committee shall be competent in monitoring the Company's activities and ensuring the integrity and effectiveness of the reports, financial statements and internal control systems. The duties of the audit committee shall particularly include the following:</p> <p>...</p> <p>b) Internal Audit:</p> <p>...</p> <p>3) monitoring and overseeing the performance and activities of the internal auditor and internal audit department of the company to ensure the availability of the necessary resources and their effectiveness in performing the assigned activities and duties.</p>
5	<p>Article 57: Audit Committee Meetings</p> <p>...</p> <p>b) The audit committee shall convene periodically with the Company's external auditor and internal auditor, <u>if any</u>.</p>	<p>Article 57: Audit Committee Meetings</p> <p>...</p> <p>b) The audit committee shall convene periodically with the Company's external auditor and internal auditor.</p>



Draft Amendments to the Corporate Governance Regulations

Corporate Governance Regulations		
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6	<p>Article 76: Composing an Internal Audit Unit or Department ¹³</p> <p>The internal audit unit or department shall be composed of at least one internal auditor whose appointment is recommended by the audit committee. Such internal auditor shall be responsible before the audit committee. The formation and operation of the internal audit unit or department shall take into consideration the following :</p> <p>1) employees of such department shall be competent, independent and adequately trained, and shall not be entrusted with any other functions other than internal audit duties and internal control system;</p> <p>2) the department shall report to the audit committee, and shall be subordinate and accountable to it ;</p> <p>3) the remunerations of the manager of the audit unit or department shall be determined by the a recommendation of the audit committee as per Company's policies; and</p> <p>4) the department or unit shall be given access to information and documents, and shall be able to obtain the same without any restrictions.</p> <p><u>13 Guiding Article</u></p>	<p>Changing Article 76 of the Corporate Governance Regulations from “a guiding article” to “a mandatory article”.</p>
7	<p>Article 77: Internal Audit Plan ¹⁴</p> <p>The internal audit unit or department shall operate pursuant to a comprehensive audit plan approved by the audit committee. Such plan shall be updated annually. Key activities and operations, including the activities of risk management and compliance departments, shall be reviewed at least annually.</p> <p><u>14 Guiding Article</u></p>	<p>Changing Article 77 of the Corporate Governance Regulations from “a guiding article” to “a mandatory article”.</p>



Draft Amendments to the Corporate Governance Regulations

Corporate Governance Regulations		
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8	<p>Article 78: Internal Audit Report ¹⁵</p> <p>a) The internal audit unit or department shall prepare and submit a written report on its activities at least quarterly to the Board and the audit committee. Such report shall include an assessment of the Company's internal control system and the final opinion and recommendations of the unit or department. Such report shall also specify the procedures taken by each department for addressing the findings and recommendations from the previous audit, and any remarks thereon, particularly failures to promptly address such findings and recommendations and the reasons for such failure ;</p> <p>b) The internal audit unit or department shall prepare a general written report to be submitted to the Board and the audit committee on the audit activities it carried during the fiscal year compared to the approved plan. Such report shall explain the reasons for any deviation from the plan, if any, during the quarter following the end of the relevant financial year;</p> <p>c) The Board shall specify the scope of the report of the internal audit unit or department, based on recommendations from the audit committee and the internal audit unit or department. The report shall include the following in particular :</p> <ol style="list-style-type: none"> 1) procedures for monitoring and overseeing the financial affairs, investments and risk management; 2) assessing the development of risk factors threatening the Company and the existing systems, in order to confront radical or unexpected changes in the Exchange; 3) an assessment of the performance of the Board and the Senior Management with respect to the implementation of internal control systems, including specifying the number of times the Board has been informed of control issues (including risk management) and a description of the method followed to address such issues ; 	<p>Changing Article 78 of the Corporate Governance Regulations from “a guiding article” to “a mandatory article”.</p>



Draft Amendments to the Corporate Governance Regulations

Corporate Governance Regulations		
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	<p>4) failures or weaknesses in the implementation of internal control, or emergency situations that have affected or may affect the Company's financial performance, and the measures taken by the Company to address such failures (particularly the issues disclosed in the Company's annual reports and its financial statements);</p> <p>5) the extent to which the Company has complied with the internal controls when determining and managing risks; and</p> <p>6) information describing the Company's risk management operations.</p> <p><u>15 Guiding Article</u></p>	
9	<p>Article 90: The Board's Report</p> <p>The Board's report shall include the Board's operations during the last fiscal year and all factors that affect the company's businesses, such report shall include the following:</p> <p>...</p> <p>11) the audit committees recommendation on <u>the need for</u> appointing an internal auditor for the Company, if <u>there is no internal auditor</u>.</p>	<p>Article 90: The Board's Report</p> <p>The Board's report shall include the Board's operations during the last fiscal year and all factors that affect the company's businesses, such report shall include the following:</p> <p>...</p> <p>11) the audit committees recommendation on appointing an internal auditor for the Company, if <u>it recommended appointing him\her during the last fiscal year</u>.</p>