



Corporate Governance Code 2018

Applicable to all joint stock companies ...

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Introduction

On 29th March 2018, the Ministry of Industry, Commerce and Tourism (“MICT”) released an Order concerning the issuance of the Corporate Governance Code (“the Code”) effective from October 2018.

The Code applies to all joint stock companies (B.S.C. and B.S.C. (c)) incorporated in the Kingdom of Bahrain and registered pursuant to the Commercial Companies Law, except for the joint stock companies licensed by the Central Bank of Bahrain and which are subject to its Corporate Governance principles.

Companies to which the Code does not strictly apply, but which strive for the highest standards of corporate governance, may also wish to review and renew their governance structures in light of this Code to ensure that they continue to meet stakeholders’ expectations.

The Code applies to accounting periods commencing from October 2018 and would primarily apply for companies having year ending on or after 31 December 2018 or subsequent periods.

Consequently, Board of Directors should review existing policies and procedures and consider the need for new/updated ones to ensure that the company is in compliance with the Code and is in a position to report on that compliance in their annual report issued for the year 2018.

The Code highlights the importance of:

- Positive relationships between companies, shareholders and other stakeholders.
- A clear purpose and strategy aligned with healthy corporate culture.
- High quality board composition and a focus on diversity.

Ministry's Requirements for Governance:

- Articles of Association of the company need to be amended in accordance with Law No. (1) of 2018.
- A corporate governance officer shall be appointed.
- A written guide and procedures for corporate governance shall be in place.
- Corporate Governance Report shall be included in the company's annual report.
- A separated item for governance shall be included in the company's general assembly agenda.



Code Structure and Reporting

The Code, in addition to its general provisions and definitions, contains eleven fundamental principles of corporate governance, each of which, contains several guidelines and directives to be applied and considered by all joint stock companies when declaring their compliance with the provisions of the Code pursuant to the “Comply or Explain” principle, offering flexibility to companies to either confirm their compliance with the provisions of the Code or explain any non-compliance in their annual report.

Companies are required to state how they have applied the principles set out under the Code in a manner which enables the shareholders and stakeholders to evaluate how they have been applied.

Challenges ahead

Companies must ensure that updated policies and procedures are in place to ensure compliance with the Code.

Directors should familiarise themselves with the changes introduced as there will be additional reporting required in their annual report regarding the appropriate implementation of the principles of the code. They will also need to reconsider whether the annual report contains all the necessary disclosures as it is likely that some additions and/or restructuring of the corporate governance sections may be required.

What's new?

- The Code clearly defined the scope of implementation of its rules and their degree of compatibility with the nature and size of each company.
- New reporting obligation on the Directors' statutory duties to promote the success of the company.
- Definition of the independent director has been extended.
- The performance of the Board and its committees should be evaluated.
- Cumulative voting method should be adopted for the election of the Directors of the Board.
- Transparency and clarity with respect to related party transactions, and needs to be reported to general assembly.
- Auditors need to report the extent to which companies comply with the regulatory requirements of governance.

BDO Bahrain can help you in achieving effective governance by:

- Conducting workshop to the Board on the Director's responsibilities, obligations and other governance requirements;
- Performing a gap assessment to identify the current practices vis-a-vis expected practices as per the Code;
- Designing the Governance framework inline with the requirements of the Code; and
- Assisting the companies in drafting the annual Corporate Governance report.

We believe that our professionals have the right blend of experience and professionalism to discuss and help bring clarity to the specific challenges that your businesses will face in the preparation for Corporate Governance.

Key contacts



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