

“Let’s invest in building our corporate governance”

Code of Corporate Governance in Palestine

Corporate Governance National Committee

November 2009

I am pleased to thank all those who contributed to the preparation of the Code of Public Shareholding Corporate Governance in Palestine for their vigorous effects in the last three years especially the National Committee of the Governance and the Capital Market Authority, the Governance Technical Team and International Financing Association and those who have participated in workshops and seminars.

We have worked on making the Code an indicative guide on how companies shall run their business through establishing the rules of good deal and transparency and rise above personal interest for the sake of public interest that should take place amongst the Management and the shareholders, the employees and the relevant authorities having the objective to raising efficiency at work and achieving profit and sustainable growth.

The international experience in the field of the Governance has proven that the companies which apply the rules of good governance snap up the confidence of the public and attract a bigger proportion of investments vis-à-vis the other companies which disregard the rules. And in support of this confidence, the onus of the companies' social responsibility increase in the service of their communities leading to a profitable final result to all the relevant parties.

The issue of this Code is the stepping-stone towards the endeavor to mushroom the ethics of Governance in Palestine and to guide the companies to higher levels in productivity and profit.

God is the best Dispenser of all affairs.

Maher Al Masri
President of National Committee for Governance

Members of National Committee of Governance:

1. Capital Market Authority/Dr. Maher Al Masri.
2. Palestinian Monetary Authority / Dr. Jihad Al wazer.
3. Palestinian Security Market / Mr. Ahmad Awada.
4. Businessmen's Association / Mr. Mohammad Masrouji.
5. Federation of Industry / Mr. Basem Khoury.
6. Chambers of Commerce and Industry Federation / Mr. Mohamad Hashem Al zgher.
7. Federation of Insurance Companies / Mr. Aziz Abedljawad.
8. Palestinian Trade Center (Pal-Trade) / Mr. Nafez Al Herbawi.
9. Certified Auditors Association / Mr. Akram Hassona.
10. Association of Banks / Mr. Nabeel abu Diab.
11. Aman of coalition / Dr. Azmi Alshuabi
12. President of the Bar/ Mr. Ali Muhana.
13. Ministry of National Economy (Companies' Controller) / Mr. Nazem Ayoub.
14. Two Academic Members / Dr. Nasser Abed Al Kareem – Dr. Mohammad Nasser.

Members of Technical Team for the Governance:

1. Dr. Atef Alawneh
2. Mr. Nazem Ayoub / Ministry of National Economy (Companies' Controller)
3. Mr. Reyad Abu Shehadeh / Palestinian Monetary Authority.
4. Mr. Mohammad Hijazi / Palestinian Security Market.
5. Dr. Hisham Awartani / Private Sector development Center / Businessmen Association.

The legal consultant of the technical team / Dr. Ameen Dawas

Index

Chapter 1: Introduction

Corporate Governance Definition

The Goal of Code implementation

The Scope of Application

The Nature of the Code

Chapter 2: Components of the Code Rules of Corporate Governance.

General Meeting Assembly.

Equal Rights of shareholders

Company's Management

Editing

Disclosure and Transparency

Other Stakeholders

Chapter 3: Access and Modify the Code of Governance.

Chapter I

Introduction

1. The globalization and the fast development in modern communication methods have led to create new competition on both local and international level for the working companies in Palestine. In the last years, the Palestinian National Authorities has issued numbers of organized legislation for the private sector such as: Monetary Authority Law, Banking Law, Investment Promotion Law, Palestinian Market Authority Law, and the Financial Security Law, Auditing law, Insurance law, and Anti-Money laundering law, Companies Amendment Law for the year 2008. This legislation consists of number of texts within the rules of Governance that are applicable internationally. The Capital Market Authorities in the same direction and after the direct coordination with Palestinian Security Market and Monetary Authority and the IFC have set the rules of Corporate Governance in Palestine due to it's importance to the Palestine economy, particularity that this issue witnessed in the last year growing interest of different countries in the world and the International Associations.

2. A national committee for Corporate Governance in Palestine was formed. Consisting of representative of regulators and economic legal and academic bodies .The National Committee of Governance has decided to form technical team to work on formulation of the code of rules of the Corporate Governance. In accordance with the foundation and work plans the goal of this team is to prepare the rules of Governance in Palestine which should be in-compliance with the circumstances and legislations existing in Palestine with taking into account the stable principle in the area of regional and International Corporate Governance.

Definition of the Corporate Governance

3. The term "Corporate Governance" is recent in Arabic language. The writers first have disagreed about this terminology until the Arabic Language Academy in Cairo decided to name the system under consideration "Corporate Governance". The Governance is known in the narrow concept that it is the system upon which both the companies and the supervision are veered to. Thus, it is a set of relations between any company's executive body and the Board of Directors and the Shareholders.

4. The Corporate Governance means in the broad concept applied in this Code is the set of rules and procedures by which the company's management and supervision are carried out through the co-ordination of relations between the Board of Directors and the Executive

Management and the shareholders and all other concerned parties including the social and the environmental responsibilities for the company. In essence, the Corporate Governance is interested in the method of management and control of companies. Also the Governance is interested in examining the potentialities of the Board of Directors in putting down the broad lines of their policies and in defining the goals for the company that are *au fait* with the interest of the shareholders and all the other concerned parties.

GOALS OF IMPLEMENTING THE CODE OF RULES OF THE CORPORATE GOVERNANCE

5. The rules of Governance aim in particular at improving the quality of performance of the Board of Directors and raising the company's capability for competition. In addition, the aim is to reaffirm the value of the company and boost confidence amongst all those concerned. In addition, the Governance helps in improving the investment atmosphere and reactivates and expands the financial market in addition to raising the competitive capability of the economy through company staff confidence and ability in the country's confrontation of danger.

The Scope of the application of the Corporate Governance Code

6. The rules of Code of Corporate Governance apply to the companies that come under the control of Market Authority. The Code is implemented on the public shareholding companies (whether listed or not) and the Palestine Financial Market authority, the Real Estate companies, the Financial Lease Companies and the Financial Security companies.

NATURE OF THE CODE OF GOVERNANCE:-

7. The code consists of a group of Corporate Governance rules based on valid laws and rules are operative in Palestine. And thus the companies are responsible to apply and are subjected to law.

At the time that most of these rules are based on explicit legislative texts yet some of these texts are dependent on the abstract of a specific text or the general rules in the Palestinian legislation. This is by taking into account that on one hand the valid laws in Palestine are relatively old and the attention to Corporate Governance on the other is relatively recent. Some legislative texts are not found to be in compliance with the proper principle of the Corporate Governance.

In these rare cases where the proper Governance has dictated a special text which is contrary to the text of the current company law in Palestine because it is old, a reference to that has been made with a recommendation to the amendment of the text accordingly. The Code consists of set of recommendations and guidelines that are to be applied voluntarily and volitionally by the companies come under the quotation," Compliance and the interpretation of Lack of Compliance". These recommendations and guidelines that aim at achieving a balance between all different parties' interests and leave for each company adequate flexibility to maintain its form, size, activity and way of administration. This will allow for the company to express its views and stand vis-à-vis the application of the recommendations and guidelines on condition that any reason for non-compliance with Code is to be expressed.

8. THIS CODE CONSISTS OF THREE TYPES OF RULES:-

First Type: The rules that are based on explicit legislative texts. In this type the application by the companies is mandatory and is under penalty of social responsibility. The rules of the Code have been formulated using terminology in the imperative mood such as must, may not, not entitled to, committed and prohibited.

Second Type: The rules are in-compliance with international practices in the field of Corporate Governance, and do not conflict with any of the explicit legislative text or at least be one of the possibilities allowed by any legislative text. So the application will be voluntary by the companies according to the quotation "Compliance and non-compliance". And this code has been formulated using permissible advice and application terminology such as: favored, recommended, and may.

Third Type: The rules are in-compliance with the international practices in the field of Corporate Governance but are at variance with the explicit legislative texts. In this case, a recommendation has been was bluntly given requesting the necessity for the amendment of the existing legislation to conform to the practices and rules.

Chapter 2:

Components of the code of rules of Corporate Governance:

9. When this Code was prepared, we were guided by the principles of the Corporate Governance issued by the International Organization for Economic Cooperation and Development (OECD) in addition to other corporate Governances that are prepared for both the regional and international levels.

Further, this Code deals with the fundamental aspects of the Corporate Governance as per the broad definition that harps on the following aspects:-

1. General Committee meeting
2. Shareholders compatible rights
3. Corporate Management.
4. Auditing.
5. Disclosure and Transparency.
6. Other interest-holders in the Company.

10. The following points were taken into consideration when the basic principles of the Governance were prepared.

*Justice and Honesty in the treatment of the shareholders and other interest-holders (such as the employees and debtors)

* Transparency and disclosure in relation to all financial and non-financial matters in a way allowing the shareholders and the public to assess the company's state of play and its *modus operandi*.

* Questioning the work coordination between the Administrative Directorate and the Board of Directors; the Board of Directors and the shareholders and between the Board of Directors and all others concerned.

* The responsibility with regard to clear separation of duties and the delegation of authorities.

1. Public Assembly Meeting

11. The invitation to the ordinary or extraordinary Public Assembly Meeting by the Board of Directors or upon the request of the Auditor or by the Company Controller or the shareholders who hold at least one quarter of the company's shares. Shareholders who hold 15% of the company's shares have the right to ask th Company Controller or the External Auditor to request the Board of Directors for an extraordinary meeting of the Public Assembly.

12. The invitation should be sent including the agenda to each shareholder at least 14 days ahead of the date of the proposed meeting and should be announced in 2 daily newspapers at least one week before the meeting. The company may send the invitation to the shareholders with all the relevant documents by e-mails or/and announce it on the company's website. For the shareholders who live aboard, it is preferable that they be notified by sending them the invitation by mail tn their respective addresses held at the company. In case the invitation is given through an advertisement in the papers, the said papers ought to be widely in circulation.

13. The shareholders should hear the external auditor report in the General Assembly meeting and they are entitled to ask the auditor for any matter contained in the financial data or in his report.

14. It is preferable that the company arrange properly the venue, date and time in a way that especially encourages the small shareholders to participate. Hence, the General Assembly meeting is to be held in Palestine with the need to use video conference in the absence of the geographical contact. This should not take place in least days.

15. It is preferable that the Board of Directors attach the detailed agenda with the invitation for the General Assembly meeting to be accompanied as well by a simplified financial data with an explanation of each point separately so as to enable the shareholders to make their decisions clearly. If the agenda contains an amendment to the contract of the founding company or its by-laws, then and upon the approval of the concerned supervisory bodies, the proposed amendments have to be appended to the invitation letter for the meeting.

16. It is preferable that the invitation to the ordinary General Assembly meeting bear a reference to the right of the shareholders who own in the aggregate at least 10% of company's shares to be allowed to have the points that they want to raise added to the agenda.

17. It is preferable to discuss the specific items on the agenda in the order recorded therein; and it is also preferable that the Chairman of the General Assembly inform the shareholders at the beginning of the meeting that they are entitled to raise their questions and queries during the meeting and the Board of Directors has to answer. Also, the Chairman is to allow everyone to express his own views themselves freely as part of the agenda within reasonable time.

18. It is preferable that the Chairman arrange for the voting on the other matters by a secret ballot. It is favorable to take into account voting separately on each issue raised in the meeting to enable each shareholder to determine his position on each issue that will be discussed and voted on during the meeting.

2. Equal Shareholder Rights

19. The Board of Directors will guarantee for each shareholder including small shareholders and shareholders who live outside Palestine all rights conferred upon them by law, regulations, the applicable instructions in force and in accordance with this Code and company by-laws which are :-

- The right to provide property records.
- The right to invite all shareholders to ordinary and extraordinary General Assembly meetings and give them access to information in accordance with the by-laws.

- The right of fair treatment of all shareholders and the right to enjoy same rights without their bearing any burdens or costs as per the company's by-laws.
- The right in having a portion of the the profit both in the pecuniary and material types.
- The right to sell, transfer or mortgage the share.
- The right of voting on suggested company's profit distribution in the Ordinary Assembly meeting.
- The right to elect the members of the Board of Directors in the General Assembly meeting.
- The right of nomination to the Board of Directors' membership.
- The right to elect the company's auditor in the General Assembly meeting.
- The priority right to subscribe in any new company's publication each as per his percentage of the shares 1.
- The right to participate in the public offer.
- The right of protection for the small shareholders in case of company's merger or disposal of one of its main assets.

Article 81 of the company law states clearly in the application of the provisions of the original subscription over the new shares. It is required that this provision be amended to allow for the shareholders the priority to buy the new shares.

3. Company Management

First: The Board of Directors

20. The public shareholding company must be administered by a Board of Directors whose members must not be less than 5 and not more than 11 members. It is preferable that the Board reflects the composition of the shareholders and the distribution ratio of capital. Small shareholders who hold 10% of the company's shares may elect their representative in the Board of Directors provided they nominate a number of candidates to this position.¹ Also the Board term in office should not exceed 4 years and it should come to an end when a new Board is elected. The Public Assembly should meet within 3 months from the expiry date of the current Board and embark on electing new members.

The current Board of Directors will continue to perform their duties at the company until new Board is elected. Board members may be re-elected for another term based on his success in the previous term.

It is preferable not to renew membership for the same persons for 3 consecutive terms.

1. Despite the fact that the company law does not contain a provision in this respect, the by-law of the company may state that such a provision will provide the necessary protection to the shareholders.

21. The membership should not interfere with any member's other interests including any deals with any other related party. However, it is preferable to for the member to declare about any outside other than that of the company interest with any party other than the company and to notify of any changes, should they happen.

The Director and/or Board member may not participate in managing similar or competitive companies. With regard to the banks and creditor companies, they may lend their Board members and apply the same terms as those that are applicable to clients.

22. The Director and/or Board Members are responsible towards the shareholders in the event of any intentional and severe negligence unless they prove that they have cared for the management of the company. The disadvantaged shareholder may sue the Director and the Members of the Board for the violation committed against the law, regulations, instructions or the statute of the company.

23. The Board of Directors may set in writing a system to avoid a conflict of interest. That should emphasize the following:

- Any Board member or any employee in the company may not ask for any amount of money or any favor for himself or for others or may not offer a third party any illegal interest.
- Adherence to the interests of the company: The Board member must seek company's interest and should not take advantage of the company to serve his own personal interests.
- Neither the Board Director nor any of the members may have a direct or indirect interest in the contracts and projects of the company or the agreements enacted with the company or for its own account.

In any transaction initiated with any related such the external auditor one of the company's founders or any person with essential information that may affect the price of the company's securities or any person who owns directly or indirectly 10% or more of company's capital, it is preferable that all competitors be given equal opportunity. In this case, the approval of the Board should be by a majority not less than two thirds of the Board members with the exception of the related party, provided that this party has the best offer.

1. Although the company's act did not contain any text in this regard. The company's bylaws might provide this text that gives the required protection for the minority shareholders

- The Director or the members are not allowed to undertake any action that is competitive to the company or may jeopardise the company's interest such as providing consultation or guidance to any of the company's customers, suppliers or creditors or others.

24. Protection of minority shareholders: It is preferable to use cumulative voting at the polling station in order to choose board nominees by offering each shareholder a number of votes equal to his total shares multiplied by the number of board members. The shareholder may not give all his votes to one nominee or he may distribute his votes amongst the candidates as he wishes,¹ it is preferable that all candidates to the board membership give the shareholder their C.Vs before election and voting at the General Assembly meeting in order to enable the shareholder to choose the right persons for the company.

25. It is preferable that amongst the the board members there are two independent members. It is meant by an independent member that he is board member who has no other relation with the company other than his membership as an independent member is not influenced by any external considerations and abides by certain sectors of the Corporate Governance. The independent member should have at least the following minimum requirements:-

- Have a four year university degree and has good experience in the company's sphere of work..
- Has not worked as an employee for the last three years in the company.
- Has no salary from the company except the money he receives for his membership.
- Has no family relation to the second degree with any member or any senior manager in the company.
- Must not be a board member or an owner of any other company that deals with this company except the services that take place through the regular normal type

of work accorded to the company's customers provided that no preferential conditions do not prevail.¹

1. However, in accordance with the companies act, members of the Board of Directors must be elected in the ordinary General assembly, by a decision taken by the majority of shareholders represented at the meeting (Article 152,153, companies act) on the basis that each share has one vote at the meeting (Article 160/2) and that the election will take place by secret ballot (Article 110 companies act) And taking into account the principles of sound corporate governance required the use of cumulative voting of the polls to choose candidates for the council to provide the necessary protection for minority shareholder and therefore have to amend the companies act in this regard

- Must not be a partner with the external auditor or an employee working for him during the last three years from date of applying for nomination to a Board member.

- His participation must not have a bearing on the company's capital nor is a partner to another shareholder.

- Should not have been a Board member to the company's administration for

Three previous consecutive terms. The two independent members are elected by the shareholders in a Public Assembly meeting from a list containing at least four names submitted by the Board Directorate.

26. When forming the board, it is preferable to include new members in order to infuse new blood and to preserve an accumulation of such an expertise. It is also preferable that the Board of Directors provide each and every new elected member with a book that explains his rights, responsibilities and duties; and that the Executive Management provide them immediately through the Board Director with all the information, data, and relevant documents. This will give the new member a clear portrayal of the company's situation regarding its weaknesses and strength Relating to the company in order to brief him on the points of weakness and strength of the company so as to enable him to carry out his duties efficiently. The new member may ask the Board Director to provide him with any necessary additional information.

27. It is preferable that the company's by-laws indicate to cases relating to the deposition of the board member due to his failure in carrying out his duties. In such

circumstances, the board member's position will become vacant and in compliance with the legislation, his new successor must be elected by the Board members from amongst the shareholders who are qualified for membership. This member will hold his office *pro tem* until the next general assembly meeting which will decide whether to confirm approve his appointment or elect a new member. The new member will hold his office for the remaining period of his predecessor.

The companies' law does not permit the election of any candidate for membership of the board of directors who does not have that number of shares which qualify him for nomination for membership according to what is specified in the rules of procedure of the company with that (Article 106, companies' law). It is necessary to include independent members of the council and it must be modified by companies in this regard.

Although it is not stipulated by the companies act, it is consistent with general principle of law and sound Corporate Governance.

28. It is preferable that the Board Director or any Board member may not practise executive functions in the company or give the impression that he does in order to maintain the distribution of authority and responsibility rather than having it centralized in one person's hand. This is also better for accountability reasons since the Board Director cannot question himself.

29. It is preferable that the Board members enjoy leadership qualities. Also the members should have diverse experience and skills that fit the nature of the company in a way to ensure that the Board fulfill their duties objectively and efficiently. It is also preferable that the Board members get training to ensure their efficient participation in company's work, and if they are working in one of the boards committees.

It is preferable that the members especially the Director dedicate adequate time for the discharge of his duties and be a resident in Palestine.

30. It is preferable that the by-laws and system of work of the Board of Directors include precise definition of the responsibilities of the Board and its members and its committees, and clearly specify the responsibilities of the Director General and other senior officials, and that necessarily should include the following:

- Adopt the strategic goals of the company proposed by the executive management and control over executive management with responsibility for daily operations; and ensure the compliance of the executive company's strategic plan, policies, the adopted and required procedures under the laws, regulations and instructions applicable and the provision of the Code:-

- Approving the annual report.
- Approving the estimated budget.
- Approving the investment projects.
- Review the transactions with the concerned parties and approve them. With regard to the transactions that have an effect on the capital structure or the administrative infrastructure, it is preferable that is carried out with the approval of the General Assembly.
- Affirm and review the company's work system continuous such as the by-laws, the internal audit system and the code of morals of the Board members and the code of conduct for company employees.
- Set salary scales and bonuses for the senior managers.
- Review work procedures in order to continuously ascertain their suitability and efficiency.
- Hold meetings on the legally approved dates and in an appropriate manner in addition to executing the decisions taken by the General Assembly.
- Ensure continuous high standards of Corporate Governance.

31. It is preferable that the Board does not delegate anyone, but it is essential that the delegation of authority be specific to the subject to be handled and the duration of time given for the submission of the results to the Board. The Board will then have the final say in the matter despite delegating some of its responsibilities to a person or an appointed committee. The Board's decision is not objectionable unless it is preceded by the annual statement of account and the release of the internal auditor report.

32. It is preferable that the Board sets down the policies that guarantees the company's abidance by the laws, regulations and instructions in force and be obliged to disclose the main information to the shareholders and creditors and other stakeholders based on the objective criteria and not formative criteria.

33. The Board of Directors has the right to form a permanent or temporary committee of its members and assign to them specific tasks. This should include the formation task and determine the duration of work procedures and the power granted and submit reports and recommendations of its work to the Board. The final responsibility of the company will be the Board's responsibly.

It is preferable in this respect to renew the membership of these committees in order to help the Board fulfill its duties in a specialized and precise way. Further, it is preferable to ensure the membership renewal of these committees so that neither the chairman of the committee nor any of its members will be depended upon in an unjustified manner.

No person may be allowed to attend any of the committees' meetings unless an invitation is directed to him by the committee. It is also advisable that the chairmen of the committees attend the Public Assembly.

34. It is preferable that the Board of Directors forms in particular the following committees:-

- Audit committee: The Board forms an investigation committee in order to ensure the transparency of the company's accounts and inform the shareholders and other stakeholders of the degree of the risk that faces the company.
- Remuneration Committee: the Board will form a remuneration committee from its members that comprises at least one of the independent members and the others will be Board members but not on full-time duty at the company. This committee helps the Board of Directors set the remuneration policy of the Board based on their performance of the members taking into account the interest of the company and that of the shareholders. This policy should be presented to the public Assembly for the appropriate decision. Further, the Committee Chairman must attend the meetings making himself available to answer the questions raised by the shareholders.
- Governance Committee: The Board forms from its members a Governance Committee comprising the Board Director and two of the part-time members and/or independents in order to control the process of applying the governance rules. And this committee is advised to prepare a Governance guide to be approved by the Board. In the small companies the Governance committee will also play the role of the Remuneration Committee.

35. The Board members and the Committees may meet with the senior officers and the main shareholders for consultation provided they are consulted in advance about the dates and topics that will be discussed. They may as well seek the assistance of outside consultants to help the Board in the discharge of its duties. This will be at the expense of the company subject to compliance with provisions of the Code the provisions for avoiding conflict of interest contained in this Code of Governance.

36. The Board bear the responsibility of risk management which is consistent with the company's activities and its size and its market. And it is preferable to set a strategy to define the dangers the company may face and how to deal with them and present them to the Public Assembly in an easy and clear way.

37. In addition to what the law dictates, the Board Director must assume the following responsibilities:-

- Establishment of a constructive relationship between members of the Board and the Executive Management to ensure that all accurate and sufficient information is given to the Board members and the shareholders in the right time.
- Suggestion and adoption of the agenda for the meeting taking into consideration the items that other members suggest.

- Ensuring that the Board fulfill its duty in the requirement manner and encourage all members to participate effectively in the Board meeting. also ensuring that the decisions taken are for the company's interest.

38. In order to enable the Board Director to have the time for the responsibility placed over his shoulders and for the committees to execute effectively the responsibilities delegated to them, it is preferable that the Board Director be a member in any of the permanent to temporary committees with the exception of the Governance committee whereby he is expected to be the deciding factor in it.

39. The board directors and members of a company have to observe the following rules:-

- Commitment to assume the responsibilities of the company and defend its interests.
- The necessity to adhere to the regulatory and legislative framework on the work of the company
- The necessity to inform the Board of the conflict of interest between him and the company with a view that the Board take all relevant actions to debar such a conflict, such as disallowing voting on a deal that projects the conflict or refraining from participation in the discussion.
- Commitment to attend the Board meeting, prepare for it and participate in it effectively
- Ensuring possession of the necessary information allowing him to continuously ask the Board Director for any further information.
- Protection of confidential material that he has access to in his capacity as a Board member.
- Making sure to attend and participate in the meetings of the General Assembly.

- Ensuring that he is not at the same time a member in more than two committees of the Board.
- Ensuring the availability for the continuous training requirements, whenever the need arises.

40. The company by-laws or any of its other documents may include other moral obligations as per the nature of work of each and every company and its special reasons.

41- It is preferable the Board appraise itself at least once a year and the appraisal result be put on the agenda of one of the meetings in order to discuss the report of the Corporate Governance with regard to the Board's performance and the attendance of the members to the meetings Board and the meetings of the committees Also it is important to know the member's contribution in the discussions and in the issuance of the decisions. The Board of Directors also asks that he be appraised by an external body once every two years by seeking the assistance of an expert. This will verify whether the structure of the Board is convenient for the discharge of duties effectively.

The internal and external appraisals are solely an internal affair of the Board. However, it is necessary that the Board take into account the appraisals in order to define points of weakness and strength of the Board, the committees and members. Further, in the event a new member is added to the Board or one of the members has been deposed, it is necessary to inform the Capital Market Authority of the change immediately. Also, the Board is asked to mention in the Governance section of the annual report to the appraisal that has been completed and the performance of the committees and members.

42. All the rewards/presents given to the members of the Board of Directors or the employees of the administration department should be noted in the annual report irrespective of whether they were give directly
Such as salaries or service charges such as loans or guarantees. It is also preferable that any monies paid to any member or employee in return for the services ought to be within a limited framework put on the agenda of the Public Assembly meeting for decision.

43. In order to have a follow-up of the work undertaken by the company, it is preferable that the Board convene a number of times to meet the volume of work at the company be in concord with the company's by-laws.

44. In the light of the size of the company, the Board will decide if there is a necessity for the employment of a Board secretary from outside the Board. It is preferable that the

appointment of such a secretary or termination of his services be issued by the Board. The secretary must be qualified and be accorded the following responsibilities:-

- * To be fully in charge of the Board records and minute all meetings.
- * To follow up all records submitted to the Board of Directors by the committees or prepared by the Board.
- * To attend the Board meetings unless he is asked not to attend because of a specific subject.
- * To upgrade the Board secretary's responsibilities to enable him to become the *Liaison* between the members of the Board on one hand and the various committees, the executive administration, the employees and the share-holders on the other.
- * It is preferable that the Board secretary become the source of information asked for by the Board members. He will also give his opinion to the Board of Directors through the Board Director on all matters relating to the Governance.

45. It is advisable that the company lays down specific instructions so to debar those who deal with the company's shares internally because of their position in the company, possession of shares or relation directly or indirectly with those having the information not to sell or buy to his account or to the account of others any bank notes belonging to the company. As long as the situation in the company is not made public, the Board member is not authorized to deal directly or indirectly in the company's bank notes.

46. The Board of Director Advice in the preparation of the company's professional governance code of conduct and have it disseminated to all. The minimum requirements are:-

- * The basic rules for dealing with the company buying and selling.
- * Delegation of responsibilities.
- * Method of advertisement on the new policies.
- * The standards of safety and health.
- * The safety professional standards in the dealing with the employees, directors and those dealing with the company. The Board of Directors must be certain that all the company activities are carried out in accordance with the company's professional code of conduct.

47. THE EXECUTIVE ADMINISTRATION

A Director General to the company must be appointed. He must be a man who has the expertise, the qualifications and honesty as per the specifications set forth by the Board Council. He must be free to work full-time and has no blood relation with the Board

Director below the third degree. The Board will specify the responsibilities of the Director General and his salary and fringe benefits.

48. It is better for the Director General to consult with the Board about the appointment of the senior officers after ascertaining that they possess the qualifications and the required expertise. He will set their job description after consultation with the Board.

49. The Board will officially appraise the performance of the Director General and the senior officers annually taking into account their proposed salaries and fringe benefits.

50. It is better for the Board in consultation with the Director General to have plans for installing new senior officers with the required qualifications in case it has been decided the Director General or any of the senior officers. The alternative is to be available so as the position will not be vacant.

51. The Executive Administration will respect and execute the instructions of the Board and the committees so as to attain the strategic goals. The Executive Administration is responsible towards the Board and the committees. The Director General will raise the reports to the Board.

Neither the Board nor the Director should interfere in the daily administrative work.

52. The Director General and the senior officers should declare to the Board of Directors each transaction in which any of their relatives in the first degree have a personal interest that contradicts with the company's interest.

53. The Board of Directors advise that an audit committee be formed in compliance with the special rules of the Corporate Governance s per the following standards:-

* It comprises at least three members and the director be an independent member and the other are Board members who are not on full-time work at the company.

* At least one of the members must be an expert in the financial and accounts affairs and has the ability to assess the risks that confront the company's work. In the event that such a person is not available from inside the Board, they may appoint a member from the external audit committee, provided he possesses the requirements of an independent member.

*The chairman of the audit committee must be a resident of Palestine.

54. The Audit Committee is to be informed of the conditions of its work, venue, meetings quorum and method of disclaimer of its responsibility. This will be cascaded to the company staff.

The Audi Committee will guarantee the transparency of the company's accounts and its capability to provide the shareholders and the other persons of interest with the

documented information about the amplitude of the economic financial risks that they are subjected to.

4_ Audit

55- The Audit Committee prepares and sends its reports to the Board of Directors concerning all issues related to its authorities, in order to enable them to exercise their oversight over the executive management and to provide them with clear and verifiable data to be disbursed to shareholders and investors.

56- Based on the recommendations from the Audit Committee, The Board of Directors after discussing with the Chief Executive Officer will issue their instructions to establish the Internal Audit Committee and the name of its managers. Board of Directors can also engage external parties to complete this task.

57- The shareholders in their annual meeting are required to appoint the external auditors, this should be based on the recommendation presented by the Board of Directors and the Audit Committee and to approve their fees based on the following criteria;

- The external auditors should be licensed by the authorities and should possess the adequate professional credentials to complete its tasks,
- The external auditor should be independent from the company, Board members, and the management. Further, they should not have any financial interest in the company and should not own any investments in the company. The auditor should not accept to engage in any activity that will tarnish their independence. Finally, the external auditors should be safeguarded from interference by any of the Board members.
- The external auditor or any of its employees should not be engage to perform the audit for the same firm for 5 consecutive years. However, the external audit firm can be re-appointed by the General Assembly for an additional five year period after a 2 year lapse.
- The engagement of the external auditors should not be terminated during the calendar year except in the case of the death of the auditor, or the decision of the governing board for the audit firms, or in the case that the courts and the audit board issued penalties against the external auditor.

58- The executive management should make available to the internal audit committee all the data and statistics required by the auditor and also to allow them to engage the required external professionals to enable them to complete their tasks. The internal audit committee should also be allowed to ask the chief financial officer, the internal audit manager, or any member of the Board to attend its meetings. The internal audit committee should meet regularly during the year, with at least one meeting every three months and to maintain proper records for all its meetings. The internal audit committee should also meet at least once a year with the external auditor and the head of internal audit, without the presence of any of the executive management.

59- The internal audit committee should prepare a document and pass it to the Board outlining its work plan, responsibilities, authorities, and the time of its periodic meetings,

and the compensation of its members. Authorities of the internal audit committee should include:

- Evaluation of the professional adequacy of the Chief financial officer,
- Review the engagement letter for the external auditors and to follow up on all requests by the external auditor that will be presented to the executive management concerning data, records, or financial records, the system of internal controls, and also to ensure the full cooperation between management and the external auditor.
- Review the audited financial statements of the company and the audit opinion and to meet with the external auditor before presenting them to the Board of Directors along with their recommendations. In case the Board rejects the recommendations presented, this should be documented in the annual report.
- The proper follow up on all the points raised by the external auditor and all the points included in the management letter and to ensure the adequate response by the Board in a timely manner,
- Review of all the accounting policies followed by the company and prepare the related report to ensure the fair presentation of the financial statements and to avoid any possible misrepresentations,
- Evaluate the competence, professional background and qualifications of the external auditors and to prepare the recommendations to the Board and to recommend their fees to be presented to the shareholders during the General Assembly.
- Review the fees paid to the external auditors to ensure this will not effect the independence of the external auditor.
- To approve all additional tasks assigned to the external auditor and ensure that this will not affect his independence.
- Evaluate the competence of the head of the internal audit department and all its staff.
- Review and evaluate the system of internal controls as presented in the reports of the internal and external auditors and then to prepare their related reports and recommendations.
- Review the internal audit plan for the year and its effectiveness and to ensure that the internal auditor has full access to the required data and information.
- Review the internal audit reports, financial and managerial findings, and the recommendations and corrective measures included to reduce any possible risks.
- To facilitate the communications between the Board and the external auditor and between the Board and the Internal Auditors, as well as, the proper communications between the internal and external auditors.

- Review and evaluate any reasons why the company is not fulfilling any of its obligations.
- Review the related party transactions and prepare reports to the Board.
- Ensure the company's commitment to the highest ethical standards and to the applicable labor laws.
- Communicate to the Board all the issues that requires their immediate actions, and also to prepare their recommendations concerning these issues.
- Undertake any additional tasks referred to it by the Board.

60- The responsibilities and duties of the internal audit committee does not in any way waive the responsibilities of the executive management and the Board of Directors related to the presence and effectiveness of the system of internal controls.

61- The company should ensure proper and professional staffing of the internal audit department based on the size of the activities of the firm and the number of its employees and to present them with the proper training. The internal audit staff are not permitted and should not be given executive responsibilities.

62- The manager of the internal audit department is appointed by the Board of Directors based on the recommendations of the audit committee that takes in consideration his experience and educational background. The compensation of the staff of the internal audit department including the manager is approved by the Board of Directors based on the recommendations of the audit committee.

63- It is preferable and advisable for the internal auditor to report directly to the General Manager, from an administrative point. Internal auditor is allowed to communicate directly with the Chairman of the Board for the purpose of consultations. He should attend all the Audit Committee meetings and is always encouraged to present his audit reports to the Audit Committee.

64- It is preferable to identify the tasks, responsibilities, and authorities of the internal audit department. The Board of Directors should write and distribute these particulars internally. This is required so that the employees know the purpose of the internal audit and that the auditor will be checking the employees' implementation of the internal controls and that all the assets are safeguarded from misuse which ultimately leads to better utilization of the corporate resources. The internal audit department should also examine the financial statements and disclosure and their adherence to internal controls and the International Accounting Standards (IAS) and all other regulatory and legal requirements. The internal auditors are empowered to meet with any of the employees and ask for any information they may require, in order to properly complete their tasks. This includes, but not limited to, communications with the external auditors and exchange of relevant data with them. Internal auditors should be free from all outside intervention.

65- The internal audit department should prepare a schedule detailing the tasks to be performed and the time span for completion. This report should be presented at the beginning of term to the Board Audit Committee and copied to the General Manager. The report should indicate the scope of the audit and any scope limitation and also report any conflict of interests, if any. Board of Directors should devise an efficient

program for the internal audit that will be periodically revised by the Board based on comments from the external auditors and the internal audit department.

66- Internal audit manager and his staff should adhere to the following ethical standards:

- To practice Due Professional Care while undertaking the audit task.
- Not to be a party in any illegal activity or that that contradicts with the internal audit function.
- To respect the goals of the company and work to achieve them.
- Not to engage in any activity that is contrary to his company's best interest.
- Reject any outside pressures that may tarnish his objectivity.
- To disclose all material issues and events that affect the reports issued by his department.
- Not to disclose any of the material that becomes available to him in his normal work, unless required by law and only to the proper authorities.
- To engage in activities that he can competently complete.
- To continue his professional education as required.

67- Internal audit department shall complete its reports without any outside interference. The internal auditors should discuss the findings in their reports with the concerned department that were audited and a quarterly report should be prepared by the Internal auditor and made available to the audit committee detailing the following:

- The level of the corporate adherence to the relevant rules and regulations.
- Any weaknesses in the system of internal control and the way the company acts to overcome these weaknesses.
- Cases where the auditor reported internal control weaknesses to the BOD and the response of the BOD.
- Cases where the internal auditor reported to the BOD and the audit committee about any cases of conflict of interest and the manner in which the cases were resolved.

68- The manager of the internal audit department should also produce an annual report to the audit committee that includes the following:

- A review of and a description of the tasks performed by the internal audit department.
- An outline of next year's internal audit program, the required additional staff, if any, and the budget of the department.

It is recommended that the management of the internal audit department be continually reviewed by the audit committee and to be periodically reviewed and evaluated by external parties that are properly trained and independent.

69- The internal and external evaluation of the internal control department should include the following:

- The professional performance of the internal audit department.

- Its contribution to risk control, oversight and internal controls, as well as corporate governance.
- Its compliance to rules, regulations, and guidelines followed by the company.
- Whether the company follows best practice procedures.
- The extent to which the internal audit department contribute to better performance of the company activities.

5-Disclosure and Transparency

70-The company shall comply with all the required disclosure rules contained in the related rule books whether it is related to the daily disclosure of material issues or the periodic and annual disclosure of the financial statements with all the supporting documents being presented to the BOD. This is to ensure that management take the proper decisions based on a complete set of data. This will also help all related third parties like such as investors and creditors to make the proper decision as to where to invest their funds and to limit the cases of fraud and or/ false rumors.

71- The company should maintain an electronic or internet page to publish all the pertinent reports and documents that are required by the rules and regulations governing the company like the system of internal controls, articles of association, annual financial statements and the shareholders' rights to attend the annual shareholders meetings and their power to vote. They should also publish the major shareholders and their percentage of ownership of the company.

72- Disclosures should include the company's social responsibility policies at least once a year, as well as, safety regulations followed by the firm. Further, these policies should be very clear and attainable on the long run and they should be in line with the regulations followed in Palestine. The social responsibility items should help the company improve its public image and its relationship to related parties and should be based on honesty, and mutual interest with third parties. The company should also disclose all relevant materials to the researchers.

6- Other related parties:

73- Related parties, other than shareholders, include employees, clients, creditors and any other person with a working relation with the company. And since the rights of the related parties are subject to existing rules and regulations such as labor law, the Commercial law, corporate law, and the signed agreements the company should make sure and put policies and procedures that will treat everybody equally and pari passu regardless of race, sex, or religion.

74- The executive management should implement financial and managerial policies and present it to the BOD for their approval. The corporate governance department should ensure that the employment policies ensure compliance to the governing rules and regulations and also to respect the interests of all third parties. This system, should at a minimum, include the advertising for all available positions and the discrimination among all applicants.

75- The company should inform all its employees of all the procedures allowing them to choose their representatives and to present to them all the incentives such as health insurance, retirement plan, or their annual bonuses. This will encourage the employees

to be more loyal. The company should also put a list of penalties in order for employees not to breach any of the company rules and procedures and to better serve the interests of third parties. The company cannot levy the penalties unless the employees were properly notified of their existence.

76- The BOD should review the relationships between the company and the related third parties at least in one of their meetings during the year.

77- The BOD should put in place a professional ethics code to be approved by the shareholders in the annual general assembly meeting and then distributed to all the staff. The BOD should make sure that all the activities of the company comply with the approved professional ethics code.

Part III

Existence and Amendments to the Corporate Governance

CHAPTER THREE

Expiration and Amendment of the Companies Corporate Governance Rules

78 The provisions of this Corporate Governance will be put into effect once approved by the National Committee of the Corporate Governance, and because it is also applicable to the general share-holding companies and the financial institutions that come under the banner of the Capital Market Committee and under its supervision. Then the Committee is the authorized body, provided no conflict with the responsibilities of other supervisory bodies exist and is the authorized body to follow up the perspective to which the companies abide by the provisions of the Governance.

The Committee will initiate a number of incentives for the committed companies by applying the voluntary rules of the Governance in many shapes such as the issuance of a Committed Company Governance certificate. The Committee is also empowered to issue the decisions and take the necessary procedures to activate the provisions contained in this Governance including the definition of its terms or the issuance of the relevant forms and giving of guidance.

The National Committee will also undertake to explain any of the rules, where necessary, and review it from time to time by either amending it or adding to it. This is done in order to be *au fait* with the changes that take place in this field both on the local and international levels