

2013 REVIEW OF THE IMPLEMENTATION STATUS OF CORPORATE GOVERNANCE DISCLOSURES: CASE OF EGYPT

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Abstract

This report is a case study of corporate governance disclosure in Egypt. The study employs the benchmark of good practices in corporate governance disclosure developed by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). This benchmark consists of fifty two disclosure items covering five subject areas and is based on a sample of the top 29 listed companies in Egypt. This study is complimentary to an earlier study conducted in 2007: 2007 Review of the implementation status of corporate governance disclosures: case study Egypt. This report compares the results of the current study to the 2007 study.

This study finds the average disclosure level is less than half of the items in the ISAR benchmark. While nine items in the ISAR benchmark were disclosed by more than two-thirds of the companies in the study, forty items were disclosed by less than half. The absolute number of disclosure items found for each company ranged from 5 to 43, indicating a high level of variability between 'best practice' companies and companies with minimal disclosure practices.

The study concludes that while the sample has relatively high rates of disclosure for few items, and the average disclosures in 2010 almost doubled the 2005 average disclosures in Egypt for several categories, they are still low levels compared to the average emerging markets levels. Policy options discussed include penalizing companies for undisclosed items, and providing education and training for executives and directors to enhance the awareness of the rapidly evolving regulatory environment, as well as the underlying importance of corporate governance disclosure.

Keywords: Corporate Governance, Disclosure, Egypt

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Abbreviations

CASE	Cairo and Alexandria Stock Exchange
CMA	Capital Market Authority
EAS	Egyptian Accounting Standard
ECGC	Egyptian Code of Corporate Governance
EFSA	Egyptian Financial Supervisory Authority
EGX	Egyptian Exchange
EIoD	Egyptian Institute of Directors
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
MOI	Ministry of Investment
OECD	Organization of Economic Cooperation and Development
ROSC	Report on the Observance of Standards and Codes
UNCTAD	United Nations Conference on Trade and Development
WGI	Worldwide Governance Indicators

1. Introduction

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has been working in the area of corporate governance since 1989 (E/C.10/AC.3/1989/6). During the twenty-first session of ISAR in 2004, the group of experts requested the development of an annual study to assess the state of reporting on corporate governance. This resulted in a series of annual reviews presented at each of the subsequent ISAR sessions. These annual reviews examined corporate governance disclosure practices around the world, including a number of enterprises from different regions. They were facilitated by the development of ISAR's benchmark of good practices in corporate governance disclosure. This benchmark consists of 52⁸ disclosure items and is explained in detail in the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure*. This publication was the outcome of ISAR deliberations, particularly those of the twenty second session.

This report is a case study of the development of corporate governance disclosure in Egypt. It was conducted in cooperation with Cairo University and the American University in Cairo⁹. The study utilizes the ISAR benchmark and the general methodology employed in the 2005 and 2006 reviews conducted by the UNCTAD secretariat

The objectives of this study are to: (a) provide a brief overview of key recent developments in Egypt since 2007, related to corporate governance disclosure; and (b) present and analyze the results of the review of corporate disclosure practices among leading companies listed in the Egyptian Exchange. The overview of recent developments is provided in Chapter I. Chapter II presents and analyzes the results of the review, looking in detail at disclosure rates for each individual item in the ISAR benchmark, and comparing the results of the current study to the previous 2007 study and the 2011 emerging countries study.

2. Overview of recent developments in corporate governance disclosure in Egypt

This chapter provides an overview of the recent reforms and key developments that have occurred in

Egypt related to corporate governance disclosure since 2007. Accordingly, this study is considered complimentary to the study conducted in 2007 titled "2007 Review of the implementation status of corporate governance disclosures: case study Egypt".

2.1 Corporate governance reforms in Egypt since 2007

In 2007, the Capital Market Authority (CMA) Board of Directors issued Resolution No. 11 of 2007 dated 11-3-2007 on the executive rules for the governance of companies operating in the field of securities and unlisted in the stock market, including companies winning licenses necessary to engage in brokerage activities in the stock exchange, configure and manage securities portfolios and investment funds, custodian, and clearing and settlement of securities transactions. This decree comes in the context of interest of developing the stock market, supporting stability and providing greater protection for investors dealing in. Through the development of performance oversight, this does not only verify compliance to legislation and rules, but also it helped in reducing the risks faced by the market and followed by many points of control similar to those in developed markets. The main interferences from the decree are:

The resolution had addressed entirely governance rules on the board of directors, the General Assembly and protection of the rights of shareholders, conflict of interests and internal transactions, obligations related to transparency and disclosure, internal control and internal auditing systems of the company, the obligations of the auditor associated with corporate governance, and sanctions applied in case of breaching those rules.

It also stipulated the operational rules of governance that it is not permissible to combine the posts of chairman and managing director or executive director except if there is a strong case, and the company is committed to disclose a justification for the body.

Operational rules of corporate governance are the responsibility of the company's board appointed while investor relations are entrusted with the responsibility for follow-up and application of the principles of governance and to respond to queries from shareholders.

The rules also noted that the auditor is not accepted for appointment unless he is enrolled in the Register of Auditors Authority, and that the appointment will be based on the recommendation of the company's Audit Committee to the Board of Directors and that the auditor who meets the efficiency, reputation, sufficient experience, and matches the capabilities, efficiency, size and the nature of the company's activity, would only be appointed. The auditor's report includes a statement about the company's commitment to the application of operational rules for corporate governance.

⁸ One benchmark item was removed making the number of items 52 instead of the earlier 53 items. A disclosure on "Practices on related party transactions where control exists" (previously Item 15) was removed because of substantive overlap with another item "Nature, type and elements of related -party transactions" (Item 12). The items in this report have been renumbered accordingly, giving a total of 52 items.

⁹ This document was edited by the UNCTAD secretariat based on research conducted by Dr. Nermeen F. Shehata, Assistant Professor of Accounting, Accounting Department, Faculty of Commerce, Cairo University and Dr. Khaled M. Dahawy, Professor of Accounting, Department of Accounting, the American University in Cairo.

It also included a number of sanctions in the operational rules against companies violating any of the rules.

The Executive version of those rules is published as a first step to apply the rules of governance to companies operating in the field of securities and unlisted on the Stock Exchange, followed by a detailed version of a guide issued by the CMA during the following period on how the optimal application of these rules should be carried out.

In addition to the previous efforts, the Capital Market Authority (CMA) issued Resolution No. 62 of 2007 dated 18/4/2007 "on the issuance of a manual for applying the rules of governance by companies operating in the field of securities and unlisted in the stock market." This guide comes as an integral part of the executive rules. This guide also included a supplement incorporates the Company's internal control system and the internal audit department. Authority had been keen on the separation between the provisions of each of the internal control and internal audit department as they are merely new and important departments for companies working in the field of financial services and contribute to the development of its internal systems.

In June 2009, the World Bank issued the ROSC report for the Arab Republic of Egypt. The World Bank conducted the ROSC report three times in 10 years (2001- 2004 - 2009) for Egypt. This Corporate Governance ROSC proposes a number of reforms to the laws, regulations, and institutions that are considered a requisite in building a modern corporate governance framework. The key to actually enhancing corporate governance will be to build a cadre of qualified, experienced, and professional directors and owners that understand the business case for good corporate governance.

It should be noted that this Corporate Governance ROSC differs from previous ROSC Assessments. More specifically, in response to the revised Organization of Economic Cooperation and Development (OECD) principles of 2004, as well as the current global financial crisis, the World Bank has updated its methodology, revising its old set and developing a new set of about 700 data points that are more objectively a benchmark for a country's corporate governance framework against the OECD principles of Corporate Governance.

On 17 January 2010, the World Bank with the Egyptian Institute of Directors (EIoD) held a conference to present and discuss the report. The most important notes and comments on this report were:

The Accounting and Auditing ROSC finds that the quality of financial disclosure is thought to have improved greatly and significantly over the years, though some concerns remain in the application of the new Egyptian Accounting Standard (EAS) No. 9.

Companies were required to implement the Egyptian Code of Corporate Governance (ECGC) on

a 'comply-or-explain' basis, and amending the code to better meet good practices.

Further support has been provided by EIoD to roll-out its director training program, focusing on family-owned businesses outside the EGX 30.

Enhanced electronic filing systems have been developed by EGX and CMA, and the annual financial statements for the most active stocks are available online for limited (five days) periods on EGX website, after which they are only available for a fee via an EGX subsidiary.

Few companies are thought to have robust risk management and internal control procedures in place.

The ECGC, one of the region's first codes, constituted a major step to improve corporate governance; however, an important opportunity was lost when it was issued on a voluntary basis. The ECGC was launched in 2005 and has played a key role in building awareness and setting a standard of good practice.

Important institutional reforms were made, including the creation of the Ministry of Investment (MOI), reorganization of the CMA and EGX, and development of new economic courts.

The CMA, as mentioned in the former review; is responsible for developing, regulating, and enforcing the capital markets; has helped strengthening corporate governance by, for example creating a Corporate Governance Department to review company disclosure and improving its market oversight and follow-up proceedings. Egypt, ranks in the 43rd percentile on the Worldwide Governance Indicators (WGI) in terms of regulatory effectiveness. The CMA is moving to a risk-based regulatory approach, focusing less on enforcing laws and regulations, but more on identifying potential risks and taking preventative actions.

Applying the governance rules contributes to decreasing the number of companies included in the Stock market from 1148 companies at the beginning of 2002 to 333 companies by mid 2009, to 240 companies in April 2010, to less than 150 companies by mid 2013.

There are still problems facing companies in applying the governance rules such as, the availability of accurate information on boards of directors of family companies.

On 5 July 2011, The Central Bank of Egypt board of directors issued a decision on the corporate governance guidelines and instructions for banks in Egypt, within the framework of the continuous sought towards the development of the Egyptian banking system and maintaining its integrity through the application of international best practices. In the light of recent financial crisis, there was a need to strengthen governance and systems of internal control in banks and strengthening the role of the regulatory systems. Instructions had been distributed to all banks registered with the Central Bank of Egypt on 23 August 2011 to begin creating or developing systems

of governance. Banks had been committed to the application in a maximum period of 1 March 2012. In case any bank could not abide by any of the required instructions, it should display it to the Central Bank accompanied by strong justifications for its consideration, which underlines the importance of adhering to the key rule of governance, namely: "Comply or Explain".

The main features of the regulations on banks governance were: The concept of governance according to the Central Bank's vision, Board of Directors, balance and independence of the bank Board of Directors, relationship between banks' internal audit committee and board of directors with the external auditors, and finally comply or explain rule.

In May 2013, the Egyptian society of Accountants and Auditors released its first draft regarding Corporate Governance Regulations to be a part of the acceptance exam for the society. In addition, board members of the Egyptian society of Accountants and Auditors conducted seminars helping to clarify and explain the new part of the exam. In June 2013, corporate governance was officially part of the acceptance exam to the society.

At the end of this part, it is important to mention that the Egyptian Financial Supervisory Authority (EFSA) is keen on engaging all the market's parties and professional associations participate in the process of issuing rules. Following the principle of "consultation to reach the best results", EFSA through their website page introduces the draft laws and regulatory decisions and receives all the participants' comments through a form that has been prepared by EFSA for this matter. There are many proposed rules under discussion. The main titles for drafts of those laws and regulatory decisions are:

A Draft to amend the Executive Regulation of Capital Market Law regarding Regulating Sukuk.

A draft of the General Rules for Microfinance Companies for Consultation.

A draft of the basic standards of professional performance for securities financial advisors.

Amending the Executive Regulation of Capital Market Law on regulating mutual funds.

Chapter conclusion

This chapter provided a summary of the key developments in Egypt since 2007 which was the year of the earlier report assessing 2005 annual reports of EGX 30 (previously CASE 30) companies. Several efforts have been exerted by various institutions in Egypt including the CMA, Central Bank of Egypt and the Egyptian society of Accountants and Auditors to enhance corporate governance in the Egyptian environment.

3. Status of implementation of good practices in corporate governance disclosure in Egypt

3.1 Background and methodology

The purpose of this study is to evaluate the level of implementation of good practices in corporate governance disclosure in Egypt. The study compares the corporate reporting practices of 29 of a leading set of Egyptian companies with the ISAR benchmark of 5210 disclosure items. Then, the study compares the current results to the earlier 2007 study assessing Egypt and the 2011 study on all emerging countries evaluated to this date. This is based on the UNCTAD publication Guidance on Good Practices in Corporate Governance Disclosure and consists of 52 disclosure items covering five broad subject categories:

Financial transparency and information disclosure;

Ownership structure and exercise of control rights;

Board and management structure and process;

Corporate responsibility and compliance; and

Auditing.

The sample of companies included in this study is composed of the 30 companies that make up the EGX 30¹¹ (previously CASE 30) in 2010. The EGX 30 is the most commonly used index to measure the performance of the Egyptian capital market. It is a price index that includes the EGX's top 30 companies measured by market capitalization and adjusted by the free float. Companies constituting the EGX 30 in 2010 represented a range of industries, as indicated in Table 1 below.

This study depends mainly on a manual survey of the annual reports and websites of EGX 30 companies. The annual reports covered in the study are those for year 2010, which was the most recent year at time of data collection. The 2007 earlier report assessing Egypt was conducted using the 2005 annual reports. Accordingly, a difference of five years would be a good indicator of how corporate reporting has improved in the Egyptian environment.

¹⁰ One benchmark item was removed making the number of items 52 instead of the earlier 53 items. A disclosure on "Practices on related party transactions where control exists" (previously Item 15) was removed because of substantive overlap with another item "Nature, type and elements of related –party transactions" (Item 12). The items in this report have been renumbered accordingly, giving a total of 52 items.

¹¹ One company was listed in 2011 making the total number of assessed companies 29 instead of 30.

Table 1. EGX 30 industrial classification

Sector	No. of companies
Banks	3
Basic resources	1
Chemicals	1
Construction and materials	2
Financial services excluding banks	6
Food and beverage	1
Industrial, goods and services and automobiles	1
Personal and household products	3
Real estate	7
Technology	1
Telecommunications	3
Travel and leisure	1

3.2 Main outcomes of the survey: overview of all disclosure items

Table 2 provides an overview of the current 2010 corporate governance disclosure items in the UNCTAD publication Guidance on Good Practices in

Corporate Governance Disclosure compared to the 2005 disclosure results. The disclosure items are organized into the five thematic groups as discussed earlier. Next to each disclosure item is the number of companies found to be disclosing this item.

Table 2. Main findings of survey on non-financial listed GCC companies

Disclosure items by category	Number of Companies disclosing this item (Max. = 29 ¹²), 2010	Number of Companies disclosing this item (Max. = 30), 2005
Ownership Structure and Exercise of Control Rights		
Ownership structure	20	13
Control structure	13	13
Availability and accessibility of meeting agenda	10	5
Control and corresponding equity stake	9	13
Process for holding annual general meetings	7	4
Rules and procedures governing the acquisition of corporate control in capital markets.	5	2
Control rights	3	13
Changes in shareholdings	1	3
Anti-Takeover measures	0	0
Financial Transparency and Information Disclosure		
Financial and operating results	29	30
Company objectives	29	30
Board's responsibilities regarding financial communications	26	4
Critical accounting estimates	25	29
Nature, type and elements of related-party transactions	21	26
The decision making process for approving transactions with related parties	4	0
Impact of alternative accounting decisions	1	0
Rules and procedure governing extraordinary transactions	0	1
Auditing		
Internal control systems	26	1
Process for interaction with external auditors	6	2
Process for interaction with internal auditors	4	1
Process for appointment of external auditors	2	1
Process for appointment of internal auditors / Scope of work and responsibilities	2	2
Rotation of audit partners	2	1
Board confidence in independence and integrity of external auditors	1	2
Duration of current auditors	1	1
Auditors' involvement in non-audit work and the fees paid to the auditors	0	0

¹² One company was delisted in 2011 making the total number of assessed companies 29 instead of 30 since the 2010 annual report was not available for that company.

Table 2 Continued

Corporate Responsibility and Compliance		
Policy and performance in connection with environmental and social responsibility	22	8
Impact of environmental and social responsibility policies on the firm's sustainability	17	8
A Code of Ethics for all company employees	9	1
Mechanisms protecting the rights of other stakeholders in business	9	2
A Code of Ethics for the Board and waivers to the ethics code	7	1
The role of employees in corporate governance	7	1
Policy on "whistle blower" protection for all employees	5	0
Board and Management Structure and Process		
Risk management objectives, system and activities	28	24
Types and duties of outside board and management positions	15	7
Number of outside board and management position directorships held by the directors	15	7
Governance structures, such as committees and other mechanisms to prevent conflict of interest	14	5
Qualifications and biographical information on board members	14	7
Professional development and training activities	14	4
Duration of director's contracts	13	4
Composition of board of directors (executives and non-executives)	11	10
Performance evaluation process	9	1
Role and functions of the board of directors	8	4
Material interests of members of the board and management	8	0
Existence of plan of succession	8	6
Composition and function of governance committee structures	7	4
Existence of procedure(s) for addressing conflicts of interest among board members	7	1
Availability and use of advisorship facility during reporting period	7	1
Independence of the board of directors	6	4
Determination and composition of directors' remuneration	5	4
"Checks and balances" mechanisms balancing the power of the CEO with the power of the Board (especially in a unified board structure)	3	6
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	0	1

As shown in Table 2 above, the strongest group of disclosure items is 'Financial transparency and information disclosure' and the weakest group is 'Auditing'. The 'Corporate responsibility and compliance' category, 'Ownership structure and exercise of internal control rights', and 'Board and management structure and process' categories show mixed results. This overall general overview of disclosure strengths per category is the same as 2007 report as shown in Table 2. In other words, financial transparency and information disclosure is still perceived as the most important information type in Egypt, whereas auditing information is not.

Several disclosure items are reported by the majority of EGX 30 companies, while other items are reported by only a few, or even none. Nine disclosure items are reported by 20 or more companies; of these nine, five are in the 'Financial transparency and information disclosure' category, and one in each of the other four categories. This is slightly higher than 2007 report where six items were disclosed by 20 or more companies. However, four of the six items were disclosed in the 'Financial transparency and information disclosure' category. This is similar to the

current results stressing the appreciation of financial transparency and information disclosure in Egypt.

Forty of the 52 items in the ISAR benchmark are disclosed by less than half of EGX 30 companies. Four disclosure items in the ISAR benchmark were not found at all among the corporate reporting of EGX 30 companies. Two of those four were also not disclosed by any company in 2007 report. The two items are "Anti take-over measures" and "Auditor's involvement in non-audit work and the fees paid to the auditors". This means that those items are still considered unfamiliar in the Egyptian environment leading to a total lack of their disclosure in both studies.

In addition, it seems that the same attitude is prevalent in Egypt towards the absence of any need of disclosing items that are described in detail in the Egyptian laws and regulations. Items related to the general assembly and the board of directors' functions and meetings are an example. In 2007 report, it was clarified that "this logic, although prevalent, is flawed: while the laws indicate in a general way what should happen, the purpose of corporate disclosure is to report specifically what actually happened. The disclosure of actual practices is more relevant for an

enterprise's stakeholders, as it assures, among other things, that the enterprise (at a minimum) meets the relevant rules and regulations." However, more effort should be exerted by related institutions such as the Egyptian Institute of Directors (EIoD) to strengthen and clarify the difference and benefits of disclosing details in companies' reports other than relying on the procedures found in laws.

As noted above, disclosure items from the 'Financial transparency and information disclosure' category were the most prevalent within the reports of EGX 30 companies. Figure 1 below provides a graphical view of the disclosure items in this group compared to 2005 results. Three of the items are disclosed by more than 25 companies, with five of the eight items in this group are disclosed by two thirds or more.

The next most prevalent group of disclosure items is 'Board and management structure and process'. As displayed in Figure 2 below, eight out of the 19 ISAR disclosure items are reported by more than one-thirds of the companies. On the other extreme, one item was not disclosed by any company, which is 'Compensation policy for senior executives departing the firm as a result of a merger or acquisition'. Results of the 2005 report are provided for comparison. Several items have increased by more than 100% in 2010 compared to 2005 including: Governance structures, Types & duties of outside board & management positions, Number of outside board & management position directorships held by the directors, Existence of procedure(s) for addressing conflicts of interest among board members, Performance evaluation process, Duration of director's contracts, and Professional development and training activities. This shows that core corporate governance disclosure items have started being appreciated in Egypt even though disclosure levels are still low.

The next most prevalent group of disclosure items is 'Ownership structure and exercise of internal control rights'. As displayed in Figure 3 below, three of these items are disclosed by one third or more of the companies. On the lower end of the scale 'Anti-takeover measures' is not disclosed by any company.

As mentioned in 2007 report that concerning the disclosure of the item "availability and accessibility of meeting agenda", Egyptian listing rules require that companies publish their meeting invitation and agenda in two widely-read newspapers, but not anywhere else, such as on the websites of the reporting company, EGX or EFSA¹³, or through other means of corporate reporting. In both reports, very few companies disclosed "process for holding annual general meetings", which was justified due to the

reason mentioned earlier that since Egyptian law provides a generic description of the process of holding an annual general meeting, companies do not think they need to report on their actual practices in this area. The disclosure level of 'Control rights' dropped in 2010 compared to 2005 results. This could be due to relying on the laws that clarify the control rights for each type of shares in listed companies.

Despite the relative novelty of many of the disclosure items in the 'Corporate responsibility and compliance' category, there was some reporting of these items among a few companies. In particular, reporting in connection to a firm's environmental and social responsibility was found among several companies; almost half the sample. In general, however, the reporting in this category was low, with less than one third of the companies reporting on any of these topics as shown in Figure 4 below. However, comparing the 2010 results to the 2005 results shows that companies' disclosure more than doubles through the five years through all items. This means that companies realized the importance of corporate and social responsibility to the company as well as to its employees, thus they been more familiar with disclosure requirements and disclosed much information in 2010 compared to 2005 reports. Even though the items 'Impact of environmental and social responsibility policies on sustainable development' was not required in Egypt similar to other emerging countries as shown in the UNCTAD 2010 Review of the implementation status of corporate governance disclosure in 22 frontier markets, this item was disclosed by the more than two thirds of Egypt's leading companies.

Finally, the category of auditing was the subject of the least amount of disclosure among the studied companies as shown in Figure 5 below. On one hand, the majority of companies reported 'Internal control systems'. On the other hand, only a very small fraction of companies reported on issues related to all other auditing aspects.

The low disclosure levels in the 'Auditing' category in general are the same as the 2007 report. However, a dramatic increase occurred in disclosure of "Internal control systems". The same reasons mentioned in the earlier report are applicable to the current results. Firstly, traditionally in the Egyptian business, the relationship between the auditor, the company and shareholders has been considered confidential information and very few individuals were aware of its details. In addition, the financial arrangements that result from the consulting and auditing activities have been considered even more sensitive. Moreover, Egyptian laws describe the required processes and procedures for the hiring, firing and resignations of auditors. As a result, many companies may believe that they are not required to disclose their actual processes and procedures in this area. However, it is important to emphasize, as

¹³ The Egyptian Financial Supervisory Authority (EFSA) was established in 2009 to replace three major regulating authorities: the Capital Market Authority (CMA), the Egyptian Insurance Supervisory Authority (EISA), and the Mortgage Finance Authority (MFA).

indicated previously, that the law indicates what disclosure should indicate what actually happens in a should happen in a general way, while company specific way.

Figure 1. Financial transparency and information disclosure¹⁴

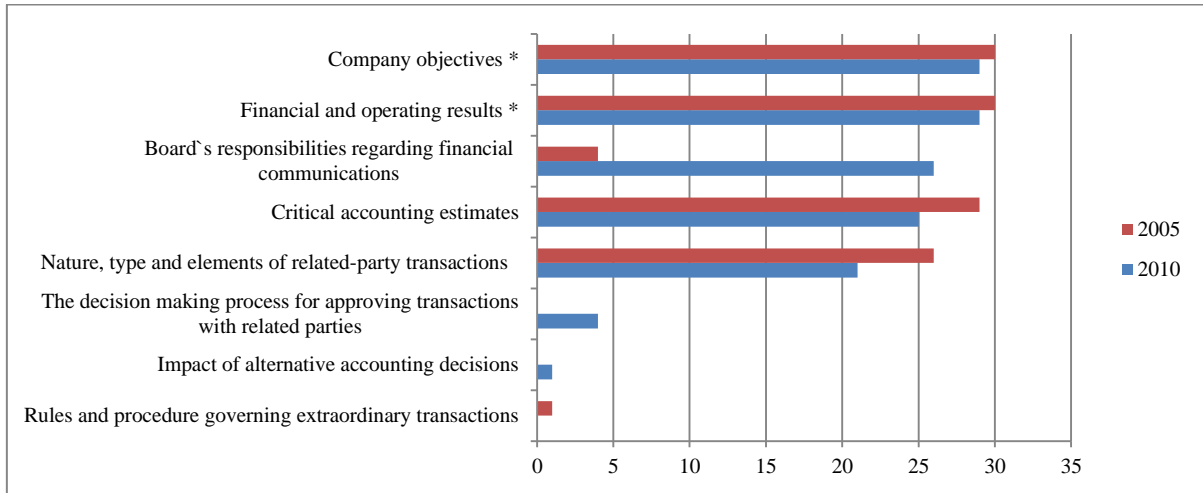
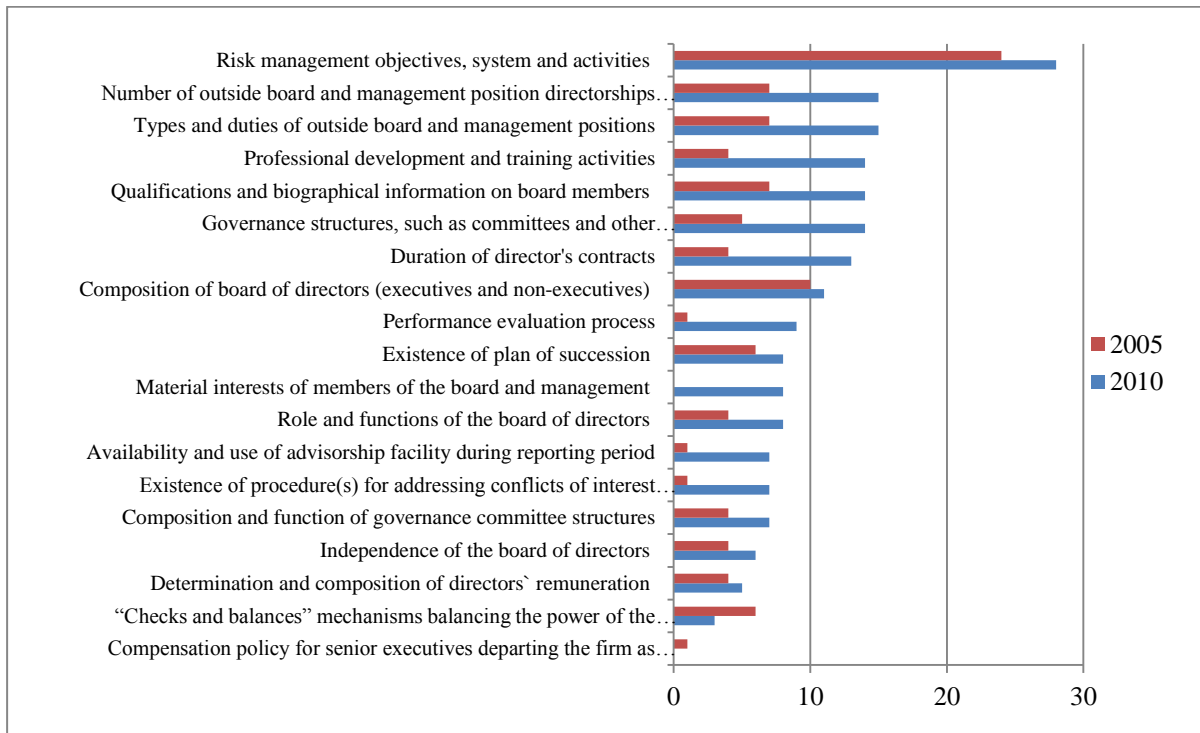


Figure 2. Board and management structure and process



¹⁴ 'Company objectives' and 'Financial and operating results' are 100% disclosed in 2005 and 2010, the difference is due to the change in the number of companies as mentioned in footnote 5.

Figure 3. Ownership structure and exercise of internal control rights

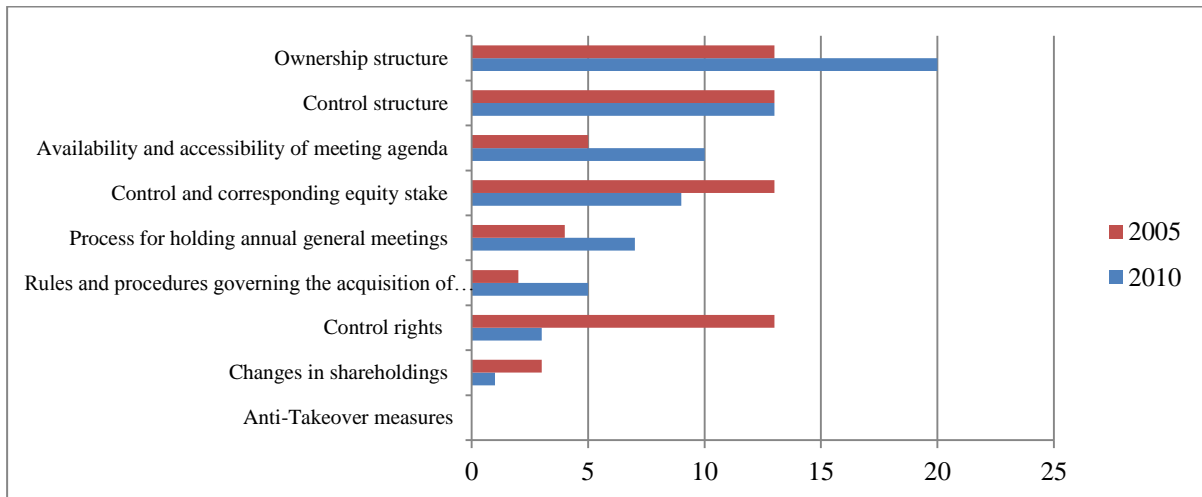


Figure 4. Corporate responsibility and compliance

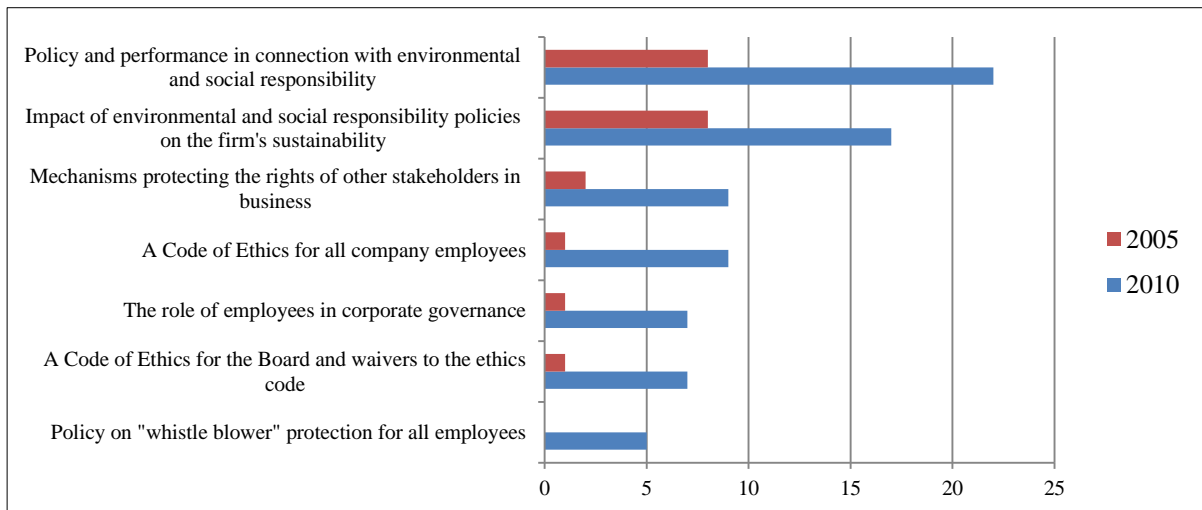
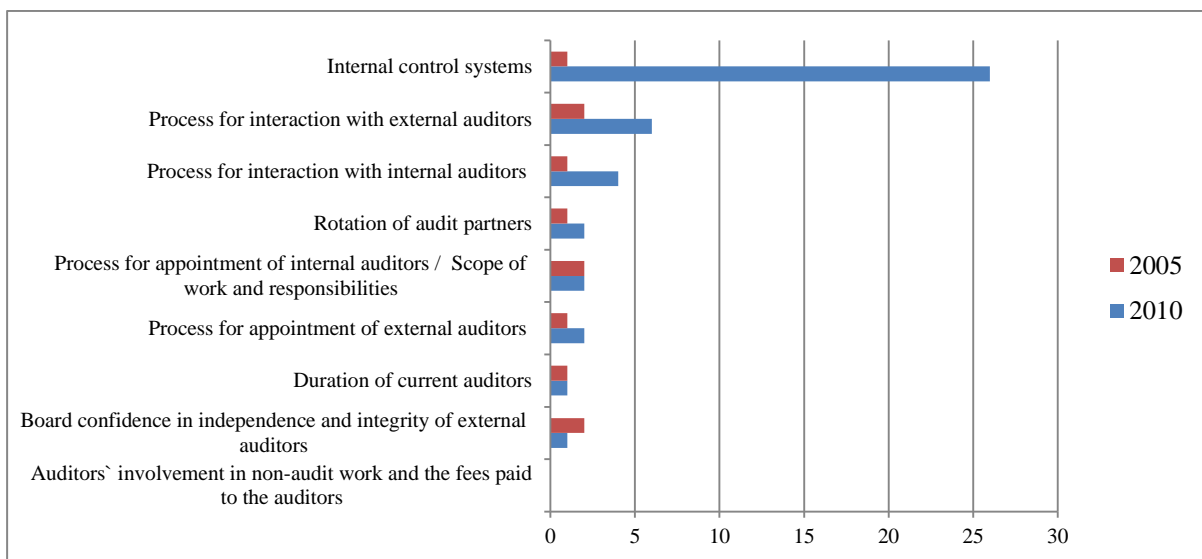


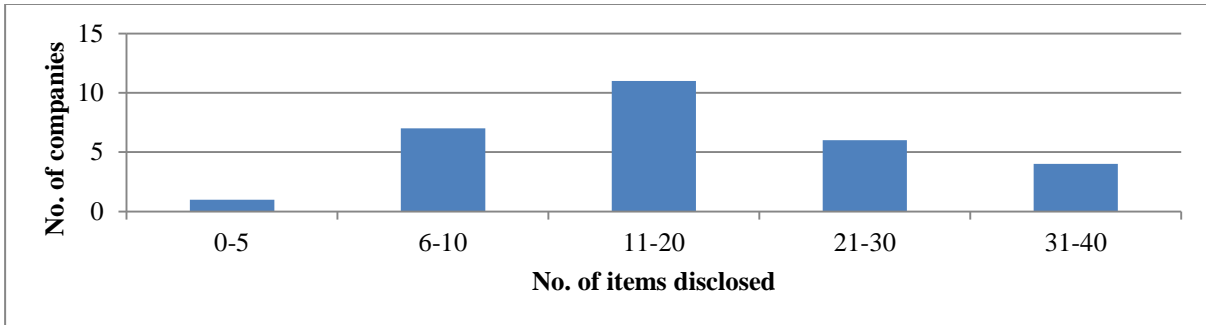
Figure 5. Auditing



The findings presented in this document have so far focused on the disclosure rates of individual items in the ISAR benchmark among the studied companies. Figure 6 below focuses not on individual disclosure items, but on the total number of disclosure items reported by the companies in the study. This is intended to provide a general overview of the disclosure rates for individual companies. What the figure indicates is that 11 companies of the 29 companies in the study disclosed between 11 and 20 of the disclosure items in the ISAR benchmark. Seven companies disclosed between 6 and 10 items whereas six companies disclosed between 6 and 10 items, and 28 companies disclosed between 21 and 30 items. Only two companies disclosed between 21 and 30

items in the benchmark. On the other extreme, only one company disclosed less than 5 ISAR items, while four companies disclosed more than 31 items. The company with the greatest number of disclosure items reported 43 items, while the company with the least reported just five items, where the average number of items disclosed was 18 items. This is higher than results in 2007 report, where the maximum number of disclosed items was only 36 ISAR disclosure items and the minimum number was three items with the average. This means that improvements are taking place in the Egyptian corporate reporting behavior even though if it is at a low pace.

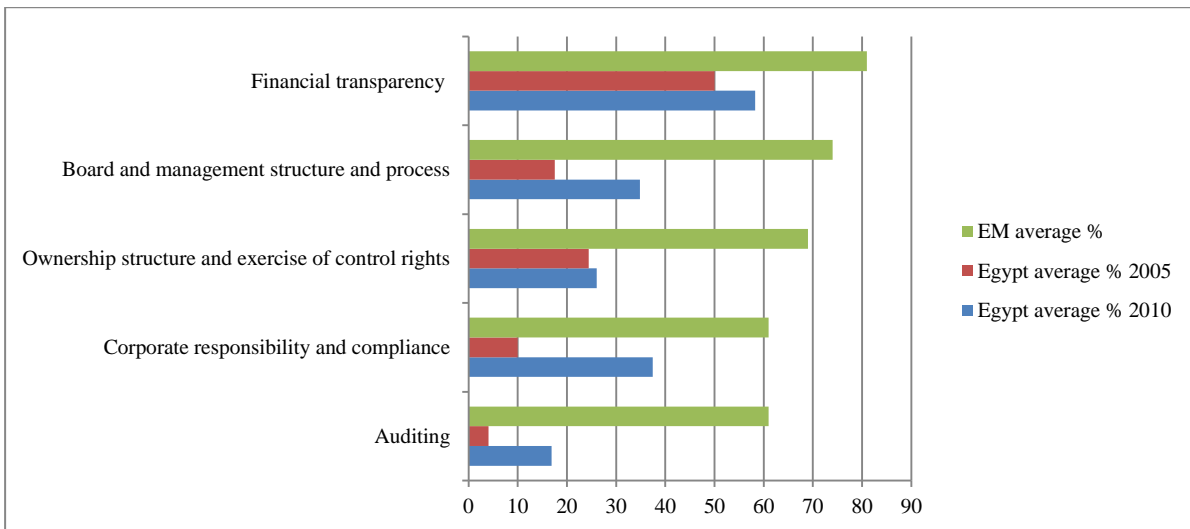
Figure 6. Reporting by company frequencies
(Total number of disclosure items reported by the EGX 30)



To sum up, Figure 7 compares the average disclosure levels in each category for 2010 results, 2005 results and the emerging markets (EM) 2011 report. The highest average disclosures were found in the 'Financial transparency and information disclosure' category which is similar to the average EM. On the other hand, the weakest group was 'Auditing' which is also similar to the EM where they

least average disclosure was found in the same category. The average disclosures in 2010 almost doubled the 2005 average disclosures in Egypt for three categories: 'Corporate responsibility and compliance', 'Auditing' and 'Board and management structure and process', even though they are still low levels and behind the average EM levels.

Figure 7. Results 2010 versus 2005 versus Emerging markets



4. Conclusions

This report is the second study of corporate governance disclosure among EGX 30 companies using the ISAR benchmark on good practices in corporate governance disclosure. The ISAR benchmark contains 52 disclosure items spanning five broad categories of disclosure. The study assessed companies constituting EGX 30 index, which is the leading index of publicly listed companies in Egypt. The study aimed to provide a picture of what corporate governance information companies in the study were reporting, compared to an earlier report on Egypt studying the EGX 30 companies in 2007.

Chapter I provided an overview of recent developments in Egypt in the area of corporate governance disclosure. One of the significant trends highlighted is the increased pace of reform aimed at improving the quality of corporate governance and enhancing the country's capital markets.

The main findings presented in Chapter II suggest low rates of corporate governance disclosure among the studied companies when compared to the ISAR benchmark. Some items, however, are widely reported. Nine core disclosure items can be found among two thirds or more of the companies: 'Ownership structure', 'Company objectives', 'Critical accounting estimates', 'Financial and operating results', 'Nature, type and elements of related-party transactions', 'Board's responsibilities regarding financial communication', 'Risk management objectives, system and activities', 'Internal control systems', 'Policy and performance in connection with environmental and social responsibility'. It should be noted that the item 'Financial and operating results'

disclosed by all examined companies matches the results of the UNCTAD 2010 Review of the implementation status of corporate governance disclosure in 22 frontier markets where the same items was disclosed by the majority of the markets.

Comparing the results of the current report to the 2007 report, slight improvement has occurred in Egypt in terms of corporate reporting. Accordingly, this report stresses recommendations provided in the earlier report in terms of the need for education and training among executives and directors to enhance the awareness of the rapidly evolving regulatory environment, as well as the underlying importance of corporate governance disclosure. Education and training should also clarify the difference between the generic description of corporate procedures and processes in the Egyptian laws and having the same information disclosed in detail in company's reports. In other words, different stakeholders would be interested in knowing the specific procedures and processes of a company, instead of the generic requirements of the law.

Training and education should also explain to preparers of company reports the means and benefits of disclosures in general, and disclosures related to corporate governance in particular. To the extent, however, that lack of compliance reflects a lack of penalty for non-compliance, Egyptian regulators may still want to consider additional policy options. Such options might include, for example, small fines for failure to report required items, or publishing on the stock exchange websites a list of non-compliant companies, or alternatively, a list ranking the best company reports.