



This Corporate Governance Code is representative of the many ongoing efforts by the Lebanese Transparency Association, its partners – both in Lebanon and internationally – and other organizations and individuals dedicated towards continually improving the business environment in Lebanon. In particular, valuable input was provided by members of the Lebanon Corporate Governance Task Force (LCGTF) and numerous others in the NGO, private, academic and public sectors who painstakingly reviewed and debated all aspects of the Code.

This Code is focused on Lebanese joint stock companies. However, the applicability of the principles of good governance embodied herein can serve as a model for other types of businesses and nonprofit organizations, both in Lebanon and throughout the Middle East. This Code also represents a positive step towards the high level of transparency and good governance that is essential for Lebanese companies to compete successfully in increasingly global markets. Finally, well-governed and corruption-free companies that adhere to recognized best practices will be better able to absorb political, social, and economic shocks and serve as stable beacons for other institutions throughout Lebanese society.

The Lebanese Code of Corporate Governance

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Design: matchdh

Printing: print shop

ISBN: 9953-470-73-1

First Edition, 2006

Project Overview and Acknowledgments

The Lebanese Transparency Association (LTA) would like to thank the project's generous sponsors, the Center for International Private Enterprise (CIPE) for the necessary support and funding to create this Code.

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We particularly thank LTA's co-executive director Mr. Badri El Meouchi and LCGTF's project manager who has unsparingly devoted his time and effort to ensure the success of this code.

LTA wishes to thank the authors of this code Nada AbdelSater AbuSamra, Esq. and Dr. Norman Bishara for offering their knowledge, time and expertise in drafting this Code. We also thank the following persons and institutions for their generous valuable review, support and contribution:

Institutions (in alphabetical Order):

- > The American University of Beirut (AUB), the Corporate Governance Program.
- > The Center for International Private Enterprise (CIPE)
- > The Global Corporate Governance Forum, Peer Review (IFCGCGF-Peer Review)
- > The International Finance Corporation, IFC.
- > The Lebanese American University (LAU), the Institute of Family and Entrepreneurial Business at the School of Business.
- > The Lebanese Association for Certified Public Accountants, LCGTF member.
- > The Lebanon Corporate Governance Task Force.
- > RDCL, the Lebanese Businessmen Association: Rassemblement des Dirigeants et Chefs d'Entreprises Libanais.

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- > Dr. Assem Saffiedine, Associate Professor of Finance, Chairperson of the Finance, Accounting and Managerial Economics, and Director of the Corporate Governance Program at the American University of Beirut.
- > Chadia El Meouchi, Esq. LTA Board member, head of LCGTF Legal and Regulatory Committee, Partner at Badri and Salim El Meouchi Law Firm.
- > Mr. Charles Adwan, World Bank, Washington DC; LTA founder and Board member.
- > Mr. Fadi Saab, LTA board member and head of LCGTF's Information, Communication and Media Committee. Chairman & President, Trans Mediterranean Airways (TMA).
- > Dr. Fouad Zmokhol, LTA Board member and LCGTF member, and General Manager of Zimco group.

- > Ms. Joelle Cattan, Director, the Lebanese Businessmen Association (RDCL).
- > Dr. Josianne Fahed-Sreih, Associate Professor of Management, Department of Economics and Management and the Director of the Institute of Family and Entrepreneurial Business at the School of Business of the Lebanese American University.
- > Joseph Yazbeck, Esq. Yazbeck Law Firm, LCGTF member.
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- > Ms. Sherine Shallah, Consultant at the Ministry of finance, LCGTF member.
- > Sleiman Dagher, Esq. Senior attorney at Badri and Salim El Meouchi Law Firm.
- > Tarek Farran, Esq. Farran Law Firm, Partner, LCGTF member.
- > Mr. Wadih Barbara, Lebanese Association for Certified Public Accountants, LCGTF member.
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The Lebanese Transparency Association is a preeminent anti-corruption organization in the Middle East. It is an independent, non-partisan non-governmental organization and pressure group focused on curbing corruption and working towards reform initiatives in Lebanon, and is the Lebanese country affiliate of Transparency International.

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I. Introduction

It was found out that more than 84% of the global institutional investors are willing to pay a premium for the shares of a well-governed company over one considered poorly governed but with a comparable financial record.

This Lebanese Corporate Governance Code developed for Lebanese Joint Stock companies, establishes principles and practices to improve the quality of corporate board governance as well as the company's performance, competitiveness, and access to diverse forms of capital. Accordingly, this Code also supports the long-term value creation and sustainable growth strategies of Lebanese companies.

The principles embodied in this document are drawn from and inspired by various international sources of good governance best practices, including the Organization for Economic Cooperation and Development (OECD) corporate governance principles. In that sense this Code is ambitious in its aspirations to guide Lebanese Joint Stock companies in their development. However, the provisions of this Code are practical and have been specifically adapted to the realities of Lebanon's existing commercial laws, and other aspects of the Lebanese business and legal systems.

The typical company envisioned in this Code is currently a private, relatively closely held company, with a number of employees of approximately one hundred persons and duly formed as a "SAL" Lebanese Joint Stock Company under the provisions of the Lebanese Code of Commerce and other applicable Lebanese laws. The rationale for the focus on this type of companies that qualify as Small and Medium Enterprises (SME's) is simple: SMEs, many of them family-owned and operated, constitute the

1. A recent survey of corporate governance commissioned by LTA in partnership with CIPE found, among other details, that there is a need for Lebanese business, which is heavily based on SMEs, to improve their governance structures. The Lebanese Transparency Association, Survey of Corporate Governance, (2005), is available at: <http://www.transparency-lebanon.org/Corruption%20Charts.pdf>.

2. In addition, "[c]orporate governance describes the structures, processes, and institutions within and around organizations that allocate power and resource control among participants," including the necessary legal and regulatory frameworks. Gerald F. Davis, New Directions in Corporate Governance, *Annu. Rev. Social.* 2005 31: 143-162 at 143. Certainly other, more detailed definitions exist – most in the context of large, publicly traded corporations. For example: "Investors in corporations require assurances that their contributions – financial capital, human capital, social capital – will generate a return. Corporate governance concerns the institutions that make these investments possible, from boards of directors, to legal frameworks and financial markets, to broader cultural understandings about the place of the corporation in society. Thus, corporate governance consists of "the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated." *Id.* citing N.M. Blair, *Ownership and Control: Re-Thinking Corporate Governance for the Twenty-First Century* (1995) at 3.

backbone of Lebanon's private sector and the improvement of SME corporate governance is essential to ensuring economic growth and stability as Lebanon continues to evolve economically and politically¹. Although this code is tailored for joint stock companies, the principles contained therein are crucial for Lebanese "sarl" (limited liability companies) and other Lebanese companies.

Broadly conceived, corporate governance is the system by which companies are directed and controlled. The concept of "corporate governance" embodied in this Code addresses the internal business rules as well as the related laws that establish, promote, and protect the management and ownership rights and responsibilities of corporate managers, employees, and owners (shareholders) of businesses². In this respect, corporate governance is concerned with how companies ought to be run, directed and controlled - and how to hold accountable those who direct and control the management. As defined in the 2004 OECD Principles of Corporate Governance, "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

Furthermore, "Good corporate governance should provide the proper incentives for the board and management to pursue objectives

that are in the interest of the company and shareholders and should facilitate effective monitoring.”³ The underlying principles of corporate governance in this Code are centered on essential objective values and standards such as transparency, fairness, discipline, accountability and responsibility. Empirical evidence and research conducted in recent years support the proposition that it pays to have good corporate governance. It was found out that more than 84% of the global institutional investors are willing to pay a premium for the shares of a well-governed company over one considered poorly governed but with a comparable financial record.⁴

The main question on the minds of SME board members and managers is “why should we voluntarily adopt a new set of rules which may constrain our behavior?” The answer is that for Lebanese small to medium sized enterprises, like all SMEs around the world, excellent corporate governance is crucial for the definition of the respective roles of shareholders as owners, on one hand, and managers, on the other. By setting prudent corporate governance rules, procedures, and checks and balances to define how the company should be ruled, conflicts, abuses and internal clashes are reduced - thus favoring the company’s growth and profit making ability. In addition, well run and well governed companies will be best positioned in today’s global marketplace, they will attract more investors and they will be more agile and flexible in their responses to the ever changing business and political environments.

3. OECD Principles of Corporate Governance, Preamble (2004).

4. Executive summary of the King Report 2002, published by the Institute of Directors in Southern Africa, page 12

5. Frank Chan, “Corporate Governance For The SME” (2003): www.lawlink.co.nz/resources/governance.pdf

6. Paul Chow, Chief Executive, Hong Kong Exchanges and Clearing (2005) quoted on p. 26 of Toolkit 2 Developing Corporate Governance Codes of Best Practice, The Global Corporate Governance Forum: www.gcgf.org

7. Companies wishing to adopt this code as part of their by laws should change the term “should” into “shall” wherever written in this Code.

8. This voluntary Code would be legally efficient if incorporated into each Company’s by-laws. For example, article 579 of the Lebanese Code of Civil Procedure provides, inter alia, that the judge of urgent matters is competent to impose such measures necessary for the purpose of removing infringements upon legitimate rights. Once incorporated into the by-laws, the provisions of the Code should be deemed as “legitimate rights” in the sense of the said article 579; thus rendering the judge of urgent matters competent to rule on cases of usurpation of said rights. This will avoid lengthy and expensive court proceedings.

Lebanese companies have, in general, at least three major interests in adopting good corporate governance. First, good corporate governance practices will pave the way for possible future growth, diversification, or a sale, including the ability to attract equity investors – from Lebanon and abroad – to free Lebanese SMEs from dependence on high-interest loans. Small to medium businesses seeking new funds often find themselves obliged to undertake serious corporate governance reforms at a high cost and upon the demand of outsiders, often in a time of crisis. When the foundations are already in place investors and potential partners will have more confidence in investing in or expanding the company’s operations.⁵ Second, adopting good corporate governance practices leads to a better system of internal control, thus leading to greater accountability and better profit margins. Third, it will free up the owner operator from operational duties as well as prevent a source of disputes. Often in closely-held companies, a falling out of the people involved revolves around misunderstandings between the managers and the owners or a failure to separate the two functions. Moreover, “practicing good corporate governance could help SMEs establish robust business processes and prepare them for future expansion.”⁶

This Code is intended as a flexible guide to innovative Lebanese joint stock companies wishing to improve their corporate governance. Therefore, adoption of this Code is voluntary. Also, the legal mechanism by which a company may wish to integrate this

Code is optional and left for the company. Hence, adoption of the Code may range from its full integration into the company's by-laws⁷ to its adoption in an ordinary general assembly as mandatory guidelines for the board of directors. By contrast, a company may merely use the Code as a reference or benchmark to monitor its corporate governance practices. Indeed, not all provisions of this Code may necessarily be applicable to all companies, thus the code must be adapted to the needs of each company by deleting or adding some provisions based on an individualized cost/benefit evaluation⁸. To facilitate the customization of the Code the authors have indicated such provisions that must be specifically scrutinized by the company's owners in this respect, as well as placing provisions about specific duties and rights of managers and shareholders in appendices.

Whilst consecrating general core principles, the Code suggests specific implementation mechanisms, but leaves it up to each company to adapt or amend such mechanisms in compliance with each company's specificities. For this reason the Code makes specific recommendations with regard to issues such as the number of days required for a certain action or the percentage threshold for voting requirements and quorums. However, the intent is that adopting companies will critically evaluate their individual needs, circumstances, and future plans when deciding which elements of the Code to adopt or modify. Moreover, where specific Lebanese legal provisions of the Lebanese Code of Commerce ("LCC") for example, are in contravention with internationally accepted principles, the Code raises this issue and provides for alternatives or recommendations.

Finally, this Code is ultimately only truly useful if it is critiqued, debated, and adopted by its target audience: Lebanese Joint stock companies. This is only the first version of the Code and this Code should be viewed as a "living document" that will be tested, amended and improved during the coming years.

Wherever used in this Code, the following terms shall have the following meaning:

- *The Code refers to this Code of Corporate Governance,*
- *LCC refers to the Lebanese Code of Commerce;*
- *Company refers to each joint stock company adopting this Code;*
- *Shareholder(s) refers to the shareholders (owners) of the Company;*
- *Board refers to the board of directors of the Company;*
- *Assembly or Shareholders Assembly refers to the General Assembly of the Company's shareholders.*

II. Shareholders' Rights and Obligations

A. General Rights of Shareholders and Key Ownership Functions

1. General Principle

9. Each Company adopting this Code should, in light of its business model and activities, define the "major transactions" or "fundamental changes" that require a shareholders' vote, such as the sale of the corporation, the sale of substantially all the assets of the corporation, or other changes in corporate control.

10. For more details, please refer to Appendix A.

Shareholders enjoy all rights conferred upon them by the Lebanese Code of Commerce (LCC) including the right to vote at assemblies, the right to dividends, the right to transfer their shares, the preferential right to subscribe to capital increases, the right to vote on major transactions⁹ as well as all rights described in this Code.

2. A List of Shareholder's Rights to be Made Available to all Shareholders¹⁰

The Company should develop a detailed "List of Shareholders Rights" fully elaborating the rights of Shareholders, including the rights described in this Code.

This list should be distributed to all shareholders as follows: upon the subscription to, or purchase or acquisition of, shares by a new shareholder (at the latest upon the physical execution and delivery of the shares) and upon any revision or amendment of the said list. Moreover, this list should be made readily available to every shareholder upon request.

3. Secure, Reliable, and Accurate Records of Ownership

Shares should necessarily be physically issued and remitted to the relevant Shareholder within [30] days of the date of the Assembly having verified their legal issuance. {Each

11. Numerous companies in Lebanon (even very old companies) have never physically issued shares. The physical execution and delivery of the share is an important guarantee for each shareholder. In some countries, the Chairman-General Manager and/or the Directors are subject to a penalty if they fail to execute physical shares. In Lebanon, there are no express penalties for such a behavior. Each company adopting this code may wish to provide for a penalty against the Directors for failure to execute physical shares. However, the enforceability of such penalty will vary depending on the legal procedure pursuant to which the said company decides to integrate or adopt this Code.

12. For more details, please refer to Appendix B.

Company adopting this Code should define the maximum time period for execution of the shares. The 30 day delay is provided for indicative purposes}.

Existing shares that are transferred or purchased should be registered and recorded immediately upon the Chairman-General Manager being given written notice of the transfer of shares¹¹.

4. General Shareholders' Right to Information in a Timely Manner and on a Regular Basis¹²

4.1 The Company should determine in its by-laws the type of information that is made accessible on an on-going basis to individual shareholders or to shareholders representing a minimum percentage of the Company's share capital, noting that the said information should include at least the documents required by the LCC to be made available to shareholders immediately prior to the annual ordinary general assembly. Legitimate considerations include the possible abuse of such access rules, the resources of the Company that would have to be devoted to allowing different levels of access, and the concern that competitors might have access to proprietary and confidential information.

4.2 Each Shareholder (or each group of shareholders, as applicable) may at any time during regular business hours and upon reasonable notice, access, in a timely manner and at the Company's principal place of business, the Company's corporate documents defined pursuant to article 4.1 here above.

4.3 In the absence of other internal Company regulations governing the access to information process, shareholders wishing to exercise this access right shall submit a request to the Chairman-General Manager who must within seven calendar days answer such request by determining at least three business days during which the shareholder may access the aforementioned information.

5. Shareholders' Right to Free Transferability of Shares Subject Only to Reasonable Restrictions under a Pro Rata Right of First Refusal

Shares are freely transferable to any person subject to the shareholder's preferential right of first refusal as per the provisions of the Company's by-laws and provided that no such provisions may result in abusive delays in the transfer of shares.¹³

13. Some shareholders' protections may be advisable although they may arguably be viewed as limitations to the general principle of free share transferability. These include first refusal rights, tag-along rights to minority shareholders. For more details, please refer to item 1 of Appendix A.

14. For more details please refer to Appendix C.

15. The 10% figure mentioned above is given for indicative purposes. For more details please refer to Appendix C.

B. The Rights of Shareholders with Regard to Shareholders' Meetings¹⁴

1. The Right to Call Shareholders' Meetings

1.1 The Board is in principle the corporate body having the competence and duty to call shareholders' meetings.

1.2 The Company's auditors shall also call for a general assembly whenever:

- i)** The Board fails to call for a general assembly and the Board is under the obligation to call for such assembly either by law or pursuant to the Company's by-laws and internal regulations including this Code;
- ii)** The auditors deem it appropriate or necessary pursuant to their professional discretion to call for a general assembly; and
- iii)** The auditors are requested to call the general assembly by a group of shareholders representing [10]%¹⁵ of the company's share capital.

1.3 Shareholders representing [10]% of the company's share capital may request the Board to call the assembly to resolve upon the issues proposed by the said shareholders.

1.4 Shareholders representing one fifth of the company's share capital may request the court to appoint a court representative to convene the general assembly to resolve upon the issues proposed by the said shareholders.

1.5 Any shareholder evidencing a legitimate interest may file an application with the court requesting the appointment of a court representative to call the general assembly to

resolve upon the issues proposed by the applicant shareholder.

2. The Right to Place Items on the Agenda

Shareholders representing [10¹⁶]% of the share capital are entitled to place items on the agenda of general meetings by communicating such items to the Board, (or to any other person duly calling the meeting such as the auditors as applicable). The Board (the auditors or the person duly calling the meeting, as applicable) must include such placed items on the meeting's agenda and convocation. In the event that the meeting has been called before receipt of the said suggested items, the agenda shall be amended to include the proposed items and the call shall be repeated on the next business day following receipt of the suggested item, provided that the repeated call including the amended agenda is duly made, within the minimum notice period for the call of the meeting (with regard to the date of the meeting as such date is determined in the first call).

3. Shareholders Must be Convened to Shareholders' Meetings in a Timely Manner

Notice and agenda of shareholders' meetings must be given at least [20] days in advance of such a meeting by means ensuring proper and timely notification of shareholders. Each company should list the notification (or publication) means as adopted by the Company; these may include one or more of

the following:

- i. postal mail with acknowledgment of receipt at the latest address as notified by the shareholder to the Company ten days prior to dispatch of the notification;
- ii. regular mailing at the latest address as notified by the shareholder to the Company ten days prior to dispatch of the notification;
- iii. fax at the latest fax number as notified by the shareholder to the Company ten days prior to dispatch of the notification;
- iv. e-mail or other electronic notification at the latest address as notified by the shareholder to the Company ten days prior to dispatch of the notification; or
- v. publication for example in daily newspapers, or the official gazette;

4. Shareholders should be Furnished with all Relevant Information Concerning Corporate Meetings in a Timely Manner

All documents and information that are required to be made available to shareholders prior to shareholders' meetings pursuant to the applicable laws and regulations as well as the provisions of this Code, should be made available to the shareholders at least [20] days in advance of the meeting.

5. The Right to Make Informed Decisions and the Right to be Informed of Corporate Issues that are Subject to Shareholder Vote

5.1 Shareholders have the right to make informed decisions.

5.2 Prior to any shareholder assembly and as of the call for such assembly or at the latest within the delay provided for under item 4 here above, each shareholder should be given access to the following information and documents, and should be delivered a copy thereof, immediately upon the shareholders' request, at the Company's own expenses unless otherwise specified in this Code:

- i. the meeting's agenda;
- ii. the Company's Inventory. It should be noted that the Company's Inventory may only be reviewed at the Company's premises;
- iii. balance sheet and profit and loss accounts and consolidated profits and loss accounts, if applicable;

16. The 10% figure is provided for indicative purposes. For more details please refer to Appendix C.

iv. the Auditors' report;
 v. the Board's report;
 vi. an updated list of shareholders;
 vii. the Company's By-laws;
 viii. the Company's Internal Regulations including this Code and the shareholders' list of rights. It should be noted that these documents are remitted to each shareholder at the company's expenses, upon execution of the shareholder's shares and upon every update or amendment of the aforementioned documents. Additional copies shall be delivered to shareholders at their own expenses; and
 ix. the Company should list all other documents that are to be made available to shareholders as applicable under the corporate by-laws.

5.3 During the General Assembly, any shareholder may ask questions to the Board concerning the suggested agenda or resolutions as part of the deliberations. The Chairperson may not submit a resolution for vote until such time when no shareholder is, in good faith, requesting the floor to ask a question concerning the said resolution. Similarly, the Chairperson shall answer each properly submitted question in good faith.

5.4 If during the General Assembly, shareholders representing [25¹⁷] % of such assembly deem to be insufficiently informed on the issues to be resolved upon, the Assembly shall be adjourned and be held within eight days.

17. Each Company adopting this Code shall determine this percentage, provided that such percentage is not higher than 25% so as to comply with the LCC. Article 190 LCC provides that if shareholders representing at least one quarter of the shareholders attending the General Assembly deem that they are not sufficiently informed on the issues discussed at the said meeting, the Assembly shall be postponed and held within eight days.

18. Lebanese law grants shares that have been owned by the same shareholder for more than two years, a double voting right. Some Lebanese authors have considered that such double voting right may not be contractually waived or eliminated. The authors of this Code consider that the LCC should be amended to expressly provide for the possibility to waive such double voting right.

19. For more details, please refer to Appendix D.

5.5 The person chairing the Assembly should announce at the onset of the meeting the Shareholders' right: (i) to be informed and ask questions on the issues placed on the agenda, and (ii) the shareholders' right to request the meeting's adjournment as described in the LCC if they deem to be insufficiently informed on the issues to be resolved upon.

C. Equitable Treatment of Shareholders

All shares should have equal voting rights and, to the extent permitted under the LCC, no shares shall have a double voting right even if held by the same shareholder for more than two years.¹⁸

D. The Protection of Minority Shareholders in Board Composition

Minority shareholders should be able to ensure election of an appropriate number of board members of their choice.¹⁹

III. Board of Directors: Structure, Responsibilities, and Prerogatives

The Board of Directors is entrusted with the duty of ensuring the proper management of the Company in the best interest of the Company and all shareholders in accordance with applicable laws and regulations. This duty may not be delegated and is proper to the Board who shall assume the final responsibility to the Company and its Shareholders regardless of whether the Board constitutes special committees or authorizes other persons or entities to undertake specific operations. The Board is responsible for setting the strategic direction and conducting managerial oversight, including day to day operations. Failure to comply with the fiduciary duties mandated herein should subject the Board and individual Board Members to liability to any aggrieved Shareholder.

A. Board Structure, Membership, and Functioning of the Board

1. Board Structure

1.1 Under current applicable Lebanese law, it is not possible to separate between the functions of chairman and general manager²⁰. Until such separation becomes legally feasible, it is advisable that the board of directors appoint a deputy general manager²¹ who reports to the board. As soon as it becomes possible under applicable law, it is advisable that the Company separate

20. The Deputy General Manager referred to in article 1.1 of this Code must have the qualifications to fill such a post at a comparable company regardless of his/her family ties. It should be noted that the LCC currently provides that the Chairman of the Board is also the company's General Manager.

21. The authors of this Code consider that LCC should be amended to provide for the possible separation between the functions of Chairman and General Manager.

22. Each company adopting this Code shall determine the appropriate percentage of non-executive board members.

23. Please refer to Appendix D and item I.(D) above.

between the functions of chairman and general manager so as the same person is not entitled to hold both functions.

1.2 At least [20]%²² of the board members should be non-executive members who do not hold any management or executive position in the Company.

1.3 The contract term of executive board members should not in principle exceed three years, unless there is a valid and clear reason justifying a longer term. In the event of terms exceeding three years, the Board must explain to the general assembly approving the said board member contract and remuneration, the reasons for extending the term beyond three years.

1.4 Every group of shareholders representing {10%} of the Company's share capital should be entitled to be represented by a board member of their choice.²³

2. Family Structures and Board Committees

2.1 Each family owned company adopting this Code should select the committees and family structures necessary or advantageous to the Company after undertaking a cost/efficiency analysis and depending on the volume and nature of the Company's business as well as the shareholders' composition. Family owned companies are encouraged to incorporate family adapted governance structures so as to enhance company sustainability and provide better corporate governance.

24. For more details on family structures and instruments, please refer to Appendix E prepared by Dr. Josianne Fahed-Sreih.

25. For more details on Board Committees, please refer to Appendix F of this Code.

Such structures may include²⁴:

- i. "Family Council"
- ii. "Family Assembly"
- iii. "Family Constitution"
- iv. "Family coordinating Committee"
- v. "Succession Plans"

2.2 Whilst sophisticated board committees are more adapted to larger companies, each company adopting this code is encouraged to seriously consider the advantages of having one or more of the following board committees depending on each company's specificities²⁵:

- i. "Audit Committee"
- ii. "Nomination Committee"
- iii. "Compensation Committee"
- iv. "Regulatory Compliance Committee"
- v. "Stakeholder Relations Committee"

3. Board Secretariat

Depending on its size, each Company adopting this Code should decide whether the Board shall have a secretary in charge of registering and coordinating all board meetings' minutes, records, books and reports submitted by and to the Board. The Secretary should also be in charge of coordinating among the various board members as well as between the board and the other company constituencies including shareholders, management, and employees.

4. Access to Company Information

Board members should have full and immediate access to all information, documents, and records pertaining to the Company.

B. Fiduciary Duties of Board Members

1. The Company's board members owe the Company and its shareholders the fiduciary duties of care, loyalty and, compliance with corporate authority. In the discharge of their fiduciary duties the Board Members must at all time act in good faith, with candor, avoiding all potential or actual conflicts of interest, and in the best interests of the Company and in compliance with the Company's articles of incorporation and bylaws, and all applicable laws, including the LCC and this Code.

2. The Company should adopt a Directors' Charter detailing the directors' duties along the lines of the attached Directors' Charter Guidelines (hereto attached as Appendix G). The duties contained in the Charter should be binding upon and diligently followed by all board members.

3. No Related Party transaction may be entered into unless duly authorized in advance by the affirmative resolution of the shareholders' assembly held in strict compliance with the requirements of article 158 of the LCC and as per the Company's policy concerning related party transactions as per the general guidelines described in Appendix G and H to this Code. The "related party policy" should consecrate principles of transparency, fairness and disclosure in addition to the requirement that any related party transaction be approved by a majority vote of the shareholders without the participation of the concerned related party.

C. Monitoring Board Functions and Accountability to Shareholders

1. The Company's annual report should clearly show the number and dates of board meetings held in the ending year and the names of board members being present or absent at each board meeting. The Board may also provide to the shareholders general assembly a chart showing the number of meetings missed by every board member with the reason for such absence.²⁶

2. The Board of directors shall meet as frequently as necessary for the discharge of its governance obligations and to ensure the good

26. Each Company adopting this Code may adopt the appropriate process with respect to board members who fail to comply with this provision.

functioning of the Company, noting that the Board shall meet at least once every three months.

D. Determining and Disclosing the Remuneration of the Board of Directors

1. The amount of remuneration for each board member should be commensurate with the contribution of that member to the operations of the Company. The guidelines for assessing executive and non-executive Board Members' remuneration and benefits will be developed and applied by the Compensation Committee and made available in writing to all Shareholders at the time their shares are registered and whenever requested by any shareholder in accordance with Article II of this Code.

2. Board Member remuneration should be determined by the Compensation Committee and shall become effective upon approval by the Ordinary General Assembly. The power to determine and approve the remuneration of the Board of Directors may not be delegated to the Board or any corporate body other than the shareholders' assembly.

3. The total remuneration, including all benefits, of Board members and top management²⁷ should be disclosed in the Company's annual report or other company reports.

27. Each Company adopting this Code should define the positions encompassed by the expression "top management" according to the company's management chart. Also, the Company may wish to require that changes in Board member remuneration during a period not immediately preceding the publishing of the Annual Report, should also be contained in the quarterly report immediately following the Compensation Committee's decision.

E. The Board and the Role of Stakeholders

1. The Board of Directors should ensure that the Company's employees are treated according to the principles of fairness and equity and without any discrimination whatsoever on the basis of race, gender, or religion.

2. The Board should develop a remuneration policy and packages that provide incentive for the employees and management of the Company to always perform in the best interest of the Company. Remuneration elements related to the performance of the company are advisable.

3. Whenever the Board is considering an issue of concern to the employees, it is recommended that the Board invite employees' representative(s) or trade unions to the Board meeting during which the issue shall be discussed.

4. The Board should oversee the implementation of management and employment systems and charts including several checks and balances procedures ensuring compliance with applicable laws and regulations and respect of shareholders' and other stakeholders' rights.

5. The Board should adopt a mechanism enabling company employees to report to the Board on improper behaviors of any agent or fiduciary of the company, where such behavior is unethical, illegal, or detrimental to the Company. The Board should ensure that the employee addressing the Board is afforded confidentiality and protected from any nuisance or negative reaction by other employees or the employee's superiors.

IV- Auditing and Related Aspects of Corporate Transparency

A. Internal Audit

1. The Board should establish an efficient system for internal audit with the internal audit function being managed by a [full time] senior level manager reporting directly to the Board. The mission of the internal audit function shall include the establishment and monitoring of systems for evaluating and controlling risk management and implementing sound rules of corporate governance. Because a full time function for internal audit may be too costly for some SME's, each company adopting this Code may elect to adapt this clause to the needs and interest of its good governance and functioning.

2. The internal audit manager must submit quarterly reports to the Audit Committee (or the Board if the Company does not have a standing Audit Committee) including the assessment of compliance by the Company with applicable laws and regulations including the provisions of this Code.

B. External Independent Auditors

1. An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the Company in all material respects.

2. External auditors should not be contracted by the company to provide any advice or services other than the auditing of the Company. The external auditors must be fully independent from the Company and its board members and should not have any conflict of interest in relation to the Company.

3. The Company's external auditors must attend the annual Ordinary General Assembly and deliver the Accountants' Annual Report.

4. External auditors are accountable to the shareholders and owe a duty to the Company to exercise due professional care in the conduct of the audit.

5. It is advisable that different auditors be appointed on a rotational basis, noting that rotation within the audit office among partners belonging to the same office ensures compliance with the rotation requirement.

Appendix A

List of Shareholder's Rights

1. The Content of the List

Each company adopting this Code should create a "List of Shareholder's rights to include the rights of shareholders consecrated in the LCC and this code. This list may also include additional rights such as minority shareholders' tag along rights (also know as co-sale rights). Such rights protects the minority shareholders in that it provides them with the option to "co-sell" their shares in the event of the Company's take over or consolidation, or any large sale by majority shareholders.

2. The Process of Adopting the List

Each Company adopting this Code should decide on the process of adopting this list of rights. Concerning the formal adoption of the "List of Shareholders' Rights", the Company may for example decide that the list of rights will be submitted to the Shareholders, whereupon a specific majority vote of the Shareholders the list becomes effective and is distributed thereafter to all Shareholders of record. The said list could also be incorporated in the Company's by-laws in order to be more durable and binding inasmuch as it concerns such rights that are not expressly provided for in Lebanese laws.

3. Availability of the List

Each Company adopting this Code should determine whether it wishes to make this list available to non-shareholders such as potential shareholders (for example potential share purchasers) or otherwise to the public.

4. The Importance of Adopting a Shareholders' List

Whilst shareholders' rights contained in the laws of Lebanon are effective irrespective of the adoption of this Code or the aforementioned list, the formal adoption of such list of shareholders' rights is important notably in terms of:

- i. raising the awareness of management and shareholders to such existing rights. Indeed, many shareholders and even management are unaware of basic shareholders' rights; and
- ii. consecrating specific shareholders' rights that may not be expressly provided for in Lebanese laws even if such rights may sometimes be derived from existing general principles of Lebanese corporate and civil law.

Appendix B

Shareholders' Right to Information

1. Article 4.1 of the Code determines the company documents and information that shareholders may access. As part of this Code, each Company should adopt internal regulations establishing a clear and detailed procedure for exercise by the shareholders of their right to information. Prompt and efficient enforcement procedures and redress measures for enforcing disclosure requirements should be included.

2. In the absence of express legal penalties and sanctions under applicable Lebanese law, each Company adopting this code may wish to provide for a penalty against the relevant company director or employee for breaching the disclosure requirements defined in this Code. However, the enforceability of such penalty will vary depending on the legal procedure pursuant to which the Company decides to integrate or adopt this Code.

3. Article 579 of the Lebanese Code of Civil Procedure provides, inter alia, that the judge of urgent matters is competent to impose such measures necessary for the purpose of removing infringements upon legitimate rights. Therefore, if this Code is given contractual power by being incorporated into the Company's by-laws for example, the judge of urgent matters should be competent to enforce its provisions in events of infringements upon shareholders' rights provided for in the Code and should be competent to order the shareholder's right to access the aforementioned information.

Appendix C

The Rights of Shareholders with Regard to Shareholders' Meetings

1. The Right to Call Shareholders' Meetings

Art 176 LCC provides that shareholders owning at least 1/5 of the Company's share capital may request that the auditors call for a general assembly. The authors believe that this Code, if approved by the extraordinary general assembly as part of the Company's by-laws, may provide for a lower percentage thus increasing minority shareholder protection. Each Company adopting this Code shall determine whether it wishes to lower the said percentage so as to provide minority shareholders with the express right to call assemblies when the board and auditors fail to do so. 10% seems to be an appropriate figure for minority rights, however this figure is given for indicative purposes and each Company adopting this Code should determine the percentage that is appropriate to each company's needs and specificities.

2. The Right to Place Items on the Agenda

The LCC doesn't expressly provide for shareholders' right to place items on the agenda. Whilst the authors of this Code recommend that the LCC be amended to expressly include such right, the authors believe that pending such amendment, the right of shareholders to place items on the assembly's agenda is in line with general principles of corporate and contract law and may be expressly consecrated in this Corporate Governance Code and/or in the Company's by-laws.

Article II.B.2 of this Code provides that Shareholders representing [10]% of the share capital are entitled to place items on the agenda of general meetings. This 10% figure is provided for indicative purposes and each Company adopting this Code should define the minimum shareholders' percentage entitled to place items on the agenda.

3. Minimum Notice Period

Each Company adopting this Code must determine the minimum notice period for calling shareholders' assemblies, provided however that such notice period is not less than 15 days, given that the LCC implicitly requires a minimum 15 day notice period for the convening of annual ordinary general assemblies.

1. Generally, Lebanese companies provide for mailing procedures (if the number of shareholders is limited) or publication in two daily newspapers. In the event that the Company adopts the publication procedure for convening assemblies, it may be advisable – notably where a company includes shareholders residing abroad – to provide shareholders with the additional optional right to receive any convocation and agenda at a specific address determined by the relevant shareholder (as such address is communicated to the BOD secretariat, or office of the BOD Chairman in writing).

4. Convening of Shareholders' Meetings

Depending on shareholders' composition, residency and other factors, each Company should determine the appropriate procedure for convening general assemblies. A balance should be reached between efficiency (to avoid cumbersome notification procedures) and ensuring actual timely and successful notification.¹

5. The Right to Make Informed Decisions

i. Access to Information:

Each company adopting this Code should determine the information and documents to be made available to shareholders prior to each assembly as recommended under article II.B.5.2 of the Code. Each company may wish to additionally include other items than the ones listed in article 5.2, such as draft resolutions, tax returns or simply the annual report or quarterly reports as needed. Other items may also be considered such as a comparative, reader-friendly table showing the financial results of the company for the last five financial years with a clear indication of the board composition for each of the said years.

ii. The Right to Ask Questions

Each Company adopting this Code may wish to consider including the express right of shareholders to address written questions to the Board prior to shareholders' meetings. The Board should answer such questions in writing at the latest at the beginning of the meeting.

Appendix D

Board Composition and Minority Shareholders

Article II. D of this Code provides that minority shareholders should be able to ensure election of an appropriate number of board members of their choice. The authors of this Code are of the opinion that each Company adopting this Code may validly add a provision to its by-laws whereby shareholders representing a specific percentage (for example 10%) of the Company's share capital are entitled to elect a board member of their choice, provided that they suggest at least three names for such position.

General Observation:

In systems where election of the Board is determined by the simple majority vote of shareholders' assemblies, shareholders may face a problem of ill-representation.

An extreme example is one where shareholders holding 49.5% of the votes may not elect to the Board even one Board member. Other concerns relate to scattered minority shareholders owning small percentages, who can never voice their concerns because they are unable to be represented on the Board (noting that board members, once elected, are supposed to represent all shareholders).

In some countries, this issue has been resolved by cumulative voting. The LCC does not provide for cumulative voting and such mechanism is arguably in contravention with the one vote-one share LCC principle. However, some authors have considered as valid the provisions of a company's by-laws whereby a group of shareholders is entitled to be represented on the board, provided that such group provides a choice of candidates for such position.

Appendix E

Governance of Family Owned Enterprises*

* This appendix is a synopsis of a more detailed code specific to family owned businesses that will be published at the Institute of Family and Entrepreneurial Business at the Lebanese American University. For more information, contact Dr. Josiane Fahed-Sreih at jsreih@lau.edu.lb, or check: www.lau.edu.lb

This Appendix was contributed by Dr. Josiane Fahed-Sreih, Associate Professor of Management, Department of Economics and Management and the Director of the Institute of Family and Entrepreneurial Business at the School of Business of the Lebanese American University

These provisions are specific to Family Owned Businesses, whereby the family has majority ownership in the business and/or the family is in management positions of the business and/or whereby the family dynamics influence decision making, and the long term direction of the business. The word "family members" refers to any member related by blood and/or by marriage to one another.

Governance in family owned enterprises is different from governance in corporations as the nature of ownership in family businesses differs in many ways:

- The basis of ownership is long term
- There are usually limited numbers of owners
- They are well known to each other
- They have family relationships other than business relationships
- They have inherited certain family conflicts which unconsciously they bring to the business
- Their ownership represents a large share of their personal net worth
- Their presence on board stems from their family relation and not their exclusive knowledge about the industry in which they operate

- Exit from ownership is difficult financially and emotionally
- They are obliged to collaborate for the benefit of the business
- They have extensive knowledge about each other which makes it difficult in some situations.

The above reasons are realities that make ownership an interdependent and intricate factor that should be dealt with cautiously to avoid conflicts and tensions in the family business. Because ownership is not widely spread like in public corporations, owners are the ones who set up their own governance system, unlike the governance system in publicly- held organizations where the system conforms to societal and regulatory expectations, usually led by management. Hence, in family firms, the owners themselves set their own governance system, in which they define their roles and responsibilities. Owners take their power of choice in hand and at their own discretion design the governance system of their choice. Family Business companies in Lebanon should have at least a family council, stemming from the family assembly, and a family coordinating committee, reporting directly to the family council.

They should come up with a family constitution, in which family policies are detailed.

1. Family Assembly

This family assembly structure should include all family members. Here the definition of who is family is important. This structure may include on its agenda, all the family governance committees reports. It also includes presentations by all family governance committees in which they report the work of the past year and they set objectives for the coming years.

They invite participation and involvement from the whole family. They make elections for committees where openings have become available in the next cycle.

They report out on a family history project

Presentations by the CEO/Chairman of the board about the latest developments that may enhance the family's pride in their business activities should be done with conformity to the principles of equity, transparency and accountability embodied in this code.

2. Family Council

This structure is made up of a small group representative of the family working at the discretion of the family as a whole, to manage activities that provide continuity of family values, family identity, family education, and family socialization; and to give guidance to the family directors about the family's interest in the adopted policies of the family business. The council serves as an executive committee of the family assembly in between meetings and oversees and coordinates the work of the committees.

The family council decisions are different from the board of directors' decisions. The family council business is geared towards the family whereas, the boards of directors business is geared to the business. The family council should send reports of the family decisions to the board of directors and to shareholders for notification and understanding of the family aspirations and direction.

3. Family Constitution

Families should come up with a document in which all areas of potential tensions and conflicts are dealt with. This document should include:

- The family values, which includes the family philosophy, principles, values and beliefs.
- The family member's employment policies

Family businesses should come up with a thorough human resources policy for the entire organization in which they list policies pertaining to entry, employment, compensation and benefits, performance and review, promotion, internships, perquisites, exit, departure and re-entry, retirement and leaves of absences. It is recommended that family members' policies should be in line with the non-family members' policies or better be the same. The dealing with employment should be based on merit rather than blood relationships to avoid nepotism, and encourage excellence and achievement in the business. They could come up with a family employment committee to deal with all employment issues. The family employment committee would report to the family council who in turn should report to the board.

- iii. The family code of conduct
- iv. The family decision making
- v. The conflict of interest and self dealing policy
- vi. The family philanthropy, strategies for philanthropy should be developed depending on the size of the business and the type of industry and type of community in which the business is.
- (vii) The inclination of the family to have family or non-family as a potential successor, and the preparation of successors to key positions. Family businesses should have a written succession plan describing the process of succession. The selection process is a board decision.
- (viii) The family training and education strategy
- (ix) The shareholders' agreement which should include policies concerning the role of family shareholders, their share ownership as well as the stock transfer and stock sale policies. The value of shares at a given time should be valued by an independent recognized auditing firm, or otherwise as provided by the terms of the succession plan.

4. Family Coordinating Committee

This committee should meet at least 2 times a year to make up the agenda for the family council, and if needed to discuss other matters of importance. This committee can appoint teams to work with different projects and handle important matters.

The above structures are family governance structures. Anything relating to the business should be considered part of the business structure. The family council reports to the board of directors. The board of directors should have a minimum of 20% unrelated or independent directors to ensure professionalism on board. The board of director's composition should be widely representative of the shareholders' base. Every 10% of the shareholders can ask for a representation on the board. The board size should be small to ensure professionalism and processing of decisions. The board of director's main duty and responsibility is to create shareholders' value.

Appendix F

The Board Committees

Each company adopting this Code may choose to adapt the election and composition of the following board committees according to the Company's framework and in the Company's best interest. It should, however, be noted that good corporate governance entails that the Nomination and Compensation Committees be comprised of a majority of non-executive board members.

A. Audit Committee

An Audit Committee may be formed whose mission shall be to prepare and/or review the Company's financial records and accounts; and to ensure that the Company adheres to all appropriate financial accounting and reporting standards.

The Committee must produce quarterly financial reports and a detailed annual report, which shall be submitted to the Board for its review and for inclusion in the Company's annual report.

B. Board Member Nomination and Selection Committee

A Nomination Committee may be formed whose mission shall be the nomination and recommendation to the Ordinary General Assembly of candidates for the Board. The nomination committee shall be appointed by the Board of Directors every two years and shall be comprised of all non-executive board members who wish to join such committee. The nomination committee may recommend names who are not shareholders of the Company. If a non-shareholder is nominated by the nomination committee and elected by the General Assembly, the minimum number of guarantee shares shall be conferred upon such person either via a share transfer, a capital increase or as may be agreed upon by the shareholders.

In pursuing its mission, the nomination committee may request the assistance and/or advice of executive board members, specialized companies, shareholders and others. It should be noted that nomination of board members from the floor of the general assembly is possible.

C. Compensation Committee

A Compensation Committee may be formed whose mission shall be the recommendation of remuneration packages and agreements of board members and management. The recommendation of the Compensation Committee shall be submitted to the Board for submission to and approval by the shareholders' general assembly. The compensation committee shall be elected by the ordinary General Assembly every two years and shall consist of at least [1/3] of Shareholders with less than [10]% ownership in the Company who are nominated by the Board and elected to that committee by a vote of all Shareholders owning individually less than [10]% of the Company's share capital at the time of the General Assembly. It is recommended that the compensation committee include a maximum of one executive board member if any, noting that executive board members may not in any event constitute more than 30% of the Compensation committee members and may not vote on their own remuneration. Compensation committee salary decisions are effective only upon the approval of [the majority] of the committee members.

D. Regulatory Compliance Committee¹

A Regulatory Compliance Committee may be appointed by the Board whose mission shall be the monitoring and reporting of the Company's conformity with all applicable government rules, regulations, and laws. This committee is charged with overseeing compliance with all laws and regulatory rules that govern the Company's activities and

products, and reporting that compliance to the Board with the aim of ensuring the Company meets its legal obligations and avoids incurring potential risk from failing to meet those obligations. Within a reasonable time of its formation this Committee shall draft, for approval of the entire Board, a Code of Corporate Conduct and other ethical or compliance frameworks deemed necessary to establish the transparency and accountability of the Company to its stakeholders and regulators. The Committee is also charged with establishing safeguards and policies to ensure the Company and its agents refrain from all forms of corruption and unethical business practices. The Committee shall have the power to conduct internal investigations into alleged misconduct within the Company and has an obligation to report to the Board any such wrongdoing when it is uncovered.

The Committee must produce a detailed annual report, which shall be submitted to the Board for its review and for inclusion in the Company's annual report.

E. Stakeholder Relations Committee

A Stakeholder Relations Committee may be formed whose mission shall be to develop and monitor the Company's relationship to various stakeholders, including employees, customers, clients, suppliers, business partners and any other interested parties impacted by the Company's activities or products. The Committee is charged with ensuring that the interests of stakeholders are considered by the Board when it makes decisions that impact various stakeholders.

The Committee must produce a detailed annual report, which shall be submitted to the Board for its review and for inclusion in the Company's annual report.

1. Committee Composition and Member Rotation

At least one committee member shall be a certified accountant or otherwise be capable of understanding and evaluating complex financial statements. Committee members shall serve on the committee for staggered terms and any single member must not have more than 2 consecutive terms on the committee without stepping down from the committee for a period of at least 9 months to ensure

1. The Regulatory Compliance Committee may, depending on the nature of the company's undertakings and at the discretion of the Board, be combined with the Audit Committee. However, a separate Audit Committee is particularly appropriate where the nature of the Company's business requires extensive interaction with government regulations and laws.

that the Committee make changes on a regular basis.

2. Committee Powers and Obligations

In faithfully discharging its duties the Committee must:

- i. establish, maintain, and regularly review the Company's financial reporting guidelines, internal controls, and principles to ensure that all financial records are accurate and sufficient;
- ii. recommend, select, and obtain outside, independent auditing services and advice in compliance with legal guidelines and accepted accounting standards;
- iii. oversee all employees charged with the Company's financial recordkeeping;
- iv. investigate all irregularities and allegations of Board, employee, or agent misconduct with regard to the Company's financial records;
- v. prepare, or otherwise commission the preparation of, all required company financial records and evaluative reports;
- vi. obtain independent evaluation of any financial conflicts of interests, including proposed related party transactions; and
- vii. review and approval all financial statements and reports prior to submission to the Board and Shareholders.

Appendix G

Directors' Charter and Duties

Each Board member owes the Company the following duties and obligations:

1. The Duty of Care

- a. In faithfully discharging his or her duties, the obligated party must act in good faith and exercise the same care and diligence which the ordinary, prudent person would exercise when in the same position, under similar circumstances, and reasonably acting in the best interests of the Company.
- b. A Board Member must take reasonable steps to be fully aware of all relevant issues, including engaging in due diligence, such as consulting outside experts when appropriate, and to make informed and independent decisions when voting on Company matters. In addition to the obligation to be informed on Company decisions and matters, the duty of care also requires Board members to take reasonable steps to monitor the Company's management and finances.
- c. Every newly elected Board Member shall upon his/her election become familiar with the Company structure, management and all other information enabling the said Board Member to assume his/her responsibility.

2. The Duty of Loyalty/Related Party Issues

The Board Members owe a Duty of Loyalty to the Company and its Shareholders. This fiduciary duty requires Board Members to subordinate their personal interests to the interests of the Company and its Shareholders and at all times act in good faith.

In addition to complying with the guidelines concerning Related Party Transactions set forth in Appendix H of this Code, to fully discharge this duty the obligated parties should refrain from engaging in any:

- a. self-dealing where an obligated party or the obligated party's family members, business associates or any other party closely affiliated with the obligated party has a financial interest in a Company action;
- b. activities which compete with the financial interests of the Company, including engaging in a competing business; however this section does not prohibit an obligated party from owning less than 10% of a publicly traded company or instances where the conflict is

disclosed and expressly waived by a majority of the members of the Board (or the General Assembly);

c. usurpation of a corporate opportunity which rightfully belongs to the Company unless the opportunity is first offered to the Company and duly rejected by a []%¹ vote of the Shareholders;

d. apparent, potential, and actual conflicts of interests. In the instance of such a conflict of interest involving a Director the affected Director must fully disclose the conflict and refrain from voting on or being present when any matters related to the conflict are brought to a Board vote;

e. action which results in a preferential personal loan to another obligated party when similar loans and loan terms are not offered to the general public; and

f. action which constitutes insider trading or otherwise improperly disclosing confidential Company information.

3. The Duty to Comply With the Corporate Authority

All obligated parties must act within the scope of the authority entrusted to them under the Company's articles of incorporation, duly enacted Board directives, Shareholder resolutions, and applicable laws. Directors acting outside of the scope of their authority should be liable for Company losses suffered as a result of those unauthorized acts.

1. Each company adopting this Code shall define the percentage shareholding vote required as per this clause.

Appendix H Related Party Transactions

1. Definition:

For the purpose of this Code, a Related Party Transaction is any transaction entered into between the Company and:

- i. any of the board members or a board member's spouse, children, mother or father;
- ii. any company or entity in which one of the Company's board members (including the board member's spouse, children, mother and/or father) has a direct or indirect stake of more than 10%; or
- iii. any company or entity that includes on its board or top-management a board member of the Company (including the board member's spouse, children, mother and/or father);
- iv. and in general any transaction that confers a direct or indirect advantage or benefit unto one of the board members (including the board member's spouse, children, mother and/or father or partners in a general partnership).¹

1. Each Company adopting this Code may wish to widen the definition of "a related party" to include senior executives, major shareholders, and the Company's partners in a joint venture, or a board member's declared companion.

2. Procedure for Approving a Related Party Transaction:

No Related Party transaction may be entered into unless duly authorized in advance by the affirmative resolution of the shareholders' assembly held as follows and in strict compliance with the requirements of Article 158 of the LCC:

2.1 The Agenda of the meeting where the authorization is to be granted shall clearly state that the proposed transaction is a related party transaction. It should be noted that the Board shall not propose a related party transaction to the general assembly unless the Board of Directors determines after due deliberation and upon written advice of the auditors:

i. that such related party transaction is beneficial to the Company and its shareholders; and

ii. is in accordance with the principles of fairness and equity whereby any Company value or assets, present or future, which are proposed to be transferred must only be done at market rates, in the best interests of the Company, and not with preferential terms, including in the event of pending insolvency.

In the case of services proposed to be provided to the Company, the Board must be satisfied that an independent bidding process with potential non-related party service providers would not result in better value for the Company;

2.2 The Board shall submit a separate report explaining the proposed transaction and the rationale for entering into such transaction with the relevant related party and evidencing the relationship between the Company and the concerned Related Party. Such report must be communicated to the shareholders with the agenda and the call for the meeting.

2.3 Shareholders shall have the right to inquire on other related party transactions entered with the same person or with any other related party.

2.4 The Auditors shall submit a separate report concerning the proposed transaction evidencing the relationship between the Company and the concerned Related Party. Such report must be communicated to the shareholders with the agenda and the call for the meeting.

2. Please refer to item II.B.5.5 of the Code.

3. Each company adopting this Code should decide on the number of years mentioned in this clause.

2.5 The chairperson of the General Assembly shall, at the commencement of any Assembly, inform the attending Shareholders of their right to request information on the discussed issues and their right to request the meeting's adjournment if they deem to be insufficiently informed².

2.6 The related party transaction must be approved by a majority vote of the shareholders without the participation of the concerned related party.

3. Disclosure:

Every Related Party transaction undertaken by the Company shall be listed in any subsequent financial and annual reports for [three]³ consecutive years and so long as the transaction represents a material liability for the Company, whichever is longer.

