Palestine Capital Market Authority Scorecard

Implementation Process

Preface:

The Palestinian corporate governance code was issued in 2009. It is a hybrid code that contains both mandatory and voluntary rules. The related local laws and regulations in addition to OECD Corporate Governance principles were used as a benchmark when developing the code. The code declares Palestine Capital Market Authority the responsible body to implement the rules of C.G code.

PCMA has been working hand in hand with different partners to ensure an effective implementation process of its corporate governance scorecard. To achieve that objective, PCMA assured that the implementation process follows a realistic and practical approach that accommodate the needs of the various stakeholders in Palestine. The implementation process consists of four consecutive phases as described below.

PCMA Scorecard Implementation Process

- **Phase one: Consultation**

This phase represents the first step that followed the development of the scorecard in cooperation with the International Finance Corporation (IFC). During this phase, PCMA carried out a large consultation process that involved a series of workshops and meetings with various stakeholders and users such as Palestine Monetary Authority (PMA), National Governance Committee, Palestine Insurance Federation, securities sector as well as other nongovernmental organization like Palestine Governance Institute. The consultation workshops intended to present the scorecard model to the participants and allow PCMA to collect feedbacks and comments from them. Afterwards, an expanded meeting with all board members of the public shareholding and listed companies was held to get more feedbacks and comments to be incorporated in the scorecard model.
• Phase Two: Multidimensional output

In this phase, PCMA evaluated the potential outcomes of the scorecard model against the needs of the users of the scorecard results. As a result, PCMA decided to adopt a multidimensional approach where the scorecard will show the results on three different levels including the individual-company level (to be disclosed only to the related company), the sectorial level based on Palestine Exchange (PEX) sectorial classifications, and finally the capital-size level, where companies are separated into three sublevels (large, medium, small) based on their Paid In Capital, which enables to study the correlation between the company’s size and its corporate governance quality. All of these levels are incorporated into the main sections of the scorecard. In other words, the scoring methodology is applied to each of these levels.

• Phase Three: Pilot Implementation

This phase will be extended over 2014, defined as a trial period where the scorecard will enter a trial implementation by the listed companies. During this phase, PCMA will circulate the scorecard model to companies and it will require them to complete the survey related to the model, in addition, PCMA will host several meetings with companies to provide them assistance in completing the survey, where experts from IFC will be present to answer company’s questions then the results will be collected, analyzed and evaluated in order to identify possible gaps and undertake required adjustments. However, results will not be available for public in this phase. PCMA also adjusted the survey to serve somehow as a manual that helps companies understand and use the scorecard, by attaching a reference with each question listed in the survey, indicating the corporate governance rule number or the related legal article that the question based on.

• Phase Four: Launching the Model

After conducting all the adjustments required in phase three, the scorecard model will be launched for implementation in 2014. In this phase, PCMA will require all public shareholding companies to complete and submit their surveys in the third quarter of each year, that is not to coincide with the release of annual financial statements in the fourth quarter as the fiscal year of public shareholding companies in Palestine follow the calendar year. In order for these surveys to be approved by PCMA, they must be ratified by the board of directors of each company through either its corporate governance committee or Risk and Audit committee. Hence, the company's board of directors will be held accountable for the information included in the survey. After the surveys are submitted, PCMA will use its supervisory mandate and information
available to scrutinize information included in each survey and double check them. Upon the completion of this step, PCMA will analyze the results and make them available for the public in agreement with the methodology described in Phase two.