

SAUDI ARABIA



New draft regulations for Saudi insurance co's



By Peter Hodgins and Alexis Golding

The Saudi Arabian Monetary Agency (SAMA) has recently published its Draft Audit Committee Regulation (the Regulation) for Insurance and/or Reinsurance Companies (Companies). The Regulation, which supplements the requirements of the Capital Market Authority's Corporate Governance Regulation dated 12/11/2006, details the requirements for Companies to establish an Audit Committee (Committee), its membership, powers and obligations.

Committee Membership and Establishment: It is mandatory for all Companies in Saudi to establish a Committee. The Committee should be established by the Board, with SAMA's written approval, for a three year term. This term is renewable on SAMA's further written approval.

SAMA may dismiss any Committee member for a regulatory violation. Members can also resign on three months' written request to the Board or will be considered resigned if they fail to attend three consecutive Committee meetings without providing an acceptable reason. Where a Committee vacancy arises and with SAMA's approval, the Board may appoint a new member to complete an outgoing member's term of appointment.

The Committee should comprise no less than three and no more than five members:

- who must be familiar with financial issues, accounting, financial reporting and insurance company audit.
- the majority must be non-Board members.
- who may not be executive directors, managers, employees or consultants of the Company, nor Board or audit committee members of another insurance-sector Company.

With SAMA's written approval, the Board may appoint one of the Committee's members as President. The Board's Chairman cannot be a member or President of the Committee.

Responsibilities: Committee members are accountable to SAMA, company shareholders and the Board. They are tasked with

formulating and executing the Committee's Board-approved action plan; recommending (re)appointment of certain roles; ensuring auditors' independence from the Company; overseeing compliance with actuaries' recommendations; determining compliance managers' and internal auditors' salaries and bonuses. The Committee must also review SAMA's comments and reports.

The Committee should work with external auditors to manage and amend the Company's accounting policies.

Meetings/Decisions: Two-thirds of members must be present for a quorate meeting. Meetings should be held at least six times annually. Committee decisions are by majority vote (proxy voting is prohibited) and the Committee may invite staff to attend as appropriate. Where no majority prevails, the President has the casting vote.

Reports: Reports and recommendations of the Committee should be submitted directly to the Board for consideration and action.

Interestingly, the Regulation requires that copies of the Internal Audit report and the Compliance Officer's report be provided directly to SAMA (in the event of non-compliance with the Company's internal systems, internal audit manuals or breach of Saudi law or regulation). This is likely to be controversial as the Regulation does not permit such reports to be referred to the Board, the Committee or the senior management prior to submission to SAMA.

Audit Committee Activities and Independence: The Committee may contact all company stakeholders (employees, committees, legal consultants, internal and external auditors) directly and check any registers and documents (confidential or otherwise). Confidentiality and impartiality of such activities are mandatory under the Corporate Governance Regulations and the Regulation.

Demonstrating Compliance: Companies must establish procedures and monitor compliance with the Regulation. Adequate records should be maintained to be able to evidence compliance to SAMA. Annual audit results and the effectiveness of Companies' internal control procedures should be included in the company directors' report.

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