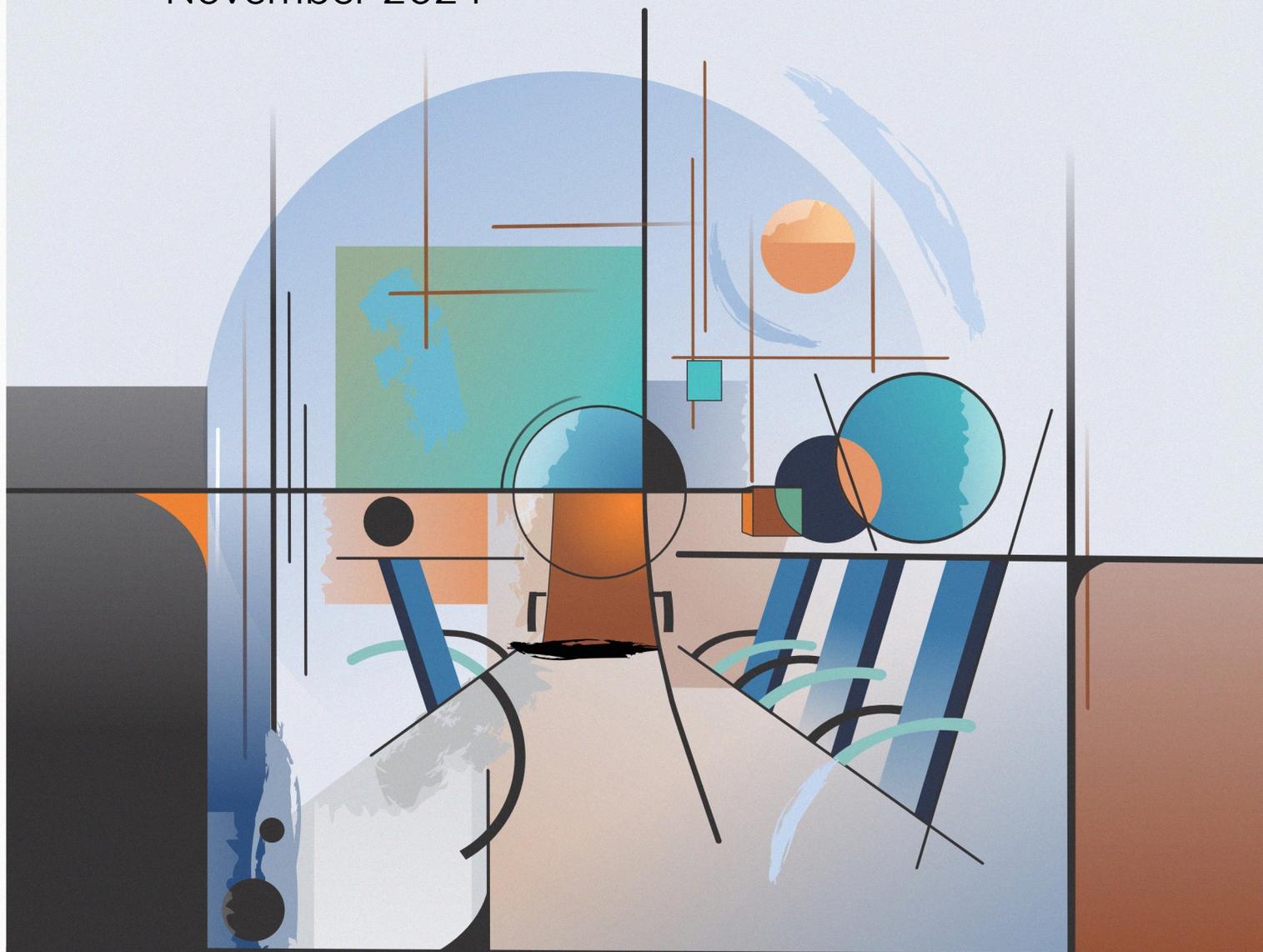


Corporate Governance Review 2023

November 2024



Capital Market Development Authority

EXECUTIVE SUMMARY

Corporate Governance is the system of rules, practices and processes that are put in place to manage and control a company. Good corporate governance improves a company's performance, creates a favourable investment climate, and contributes to the sustainable development of the capital market. Adopting sound corporate governance practices helps companies enhance management and board efficiency, leading to improved decision-making and reduced operational risks.

The CMDA CG Code provides a practical guidance for shareholders, boards of directors and senior management of listed companies to ensure their efficiency, order, transparency and fairness as well as enhance the exercising of their roles, rights and duties with high levels of responsibility and integrity.

This year's review found that, overall, companies complied with an average of 86% of the Provisions of the Code. We are pleased to find examples of good quality reporting on some Provisions of the Code including the internal control functions, disclosures related to Board Committees and disclosures regarding shareholder and stakeholder engagement. It is also worth noting that significant strides have been made by some companies in their sustainability reporting, on a voluntary basis. Nonetheless, there are areas where further improvements are needed.

The Code is flexible, where companies can depart from the Provisions of the Code provided that they clearly explain how they have maintained effective govern-

ance. However, we found that explanations sometimes lack clarity and some companies failed to provide an explanation altogether. It is essential that companies offer greater transparency when reporting departures from the Code to ensure that stakeholders are able to assess the effectiveness of their governance activity.

Moreover, we have not seen any improvements in gender diversification in Boards compared to previous year. Thus, companies need to make stronger efforts to meet the gender diversification requirements. Additionally, companies need to strengthen their board nominee assessment process and avoid recruiting directors which may have a potential conflict of interest.

Lastly, companies need to improve their disclosures regarding the training and refresher programs of directors and carry out the process of re-electing one third of the board every year as required by the Code.

Good governance goes beyond box-ticking to embed the right behaviors and culture. We urge all companies to pursue a goal of strong, clear and informative reporting of governance outcomes, and the actions that these drives. Genuine insights, rather than repetition of generic language, are essential for the application of the Code's principles and the spirit of 'comply or explain'.

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1. INTRODUCTION

As in the previous year (2022), this year's review considers the reporting of 10 (ten) issuers of listed securities for whom the Code applies under Section 5 of the CMDA Corporate Governance Code (the Code).

The Code requires every company to ensure that they issue an annual report and explain how the company has achieved compliance with the provisions of the Code. The provisions operate on a 'comply or explain' basis, and where there has been non-compliance, the company must explain why the compliance could not be achieved. The statement should be in a manner that would enable shareholders to evaluate how the Code has been applied. The ability of investors to evaluate the approach to governance is important. Therefore, the effective application of the Code should be supported by high-quality reporting on the Provisions.

All reporting against the Code should be in the context of the circumstances of the company. Therefore, we would expect governance reporting to be different and demonstrate good governance in the spirit of the Code. There is no template or "one size fits all" approach. The Code allows the companies to consider their approach in the context of their particular circumstances and report accordingly.

Companies should provide clear and specific reporting, avoiding repetition, ambiguity and lengthy boilerplate statements. The aim of reporting should not be to provide large amounts of detail. Indeed, better reporting would offer concise information that is clear and specific to the company.

As the regulator, we are supportive of departures from the Code, where there is a clear rationale for doing so. This year's review found well over 80% of companies departing from one or more provisions of the code, demonstrating that there is still work to be done.

The aim of this review is to give an overview of the reporting that we have assessed with regard to the extent of the application of the Code, highlight good practices, assess the trends compared to previous year, and explain where practices and reporting fall short, and need improvement. By showcasing good quality reporting and a key message, we strive to raise standards to support appropriate transparency and build trust from shareholders and stakeholders. We hope that companies, and their stakeholders will consider the review and act upon it accordingly.

2. MAIN FINDINGS

2.1 Code of Compliance

2.1.1 Overall Compliance with the Code

As in the previous year, our review looked closely at how companies have applied the principles and complied with the provisions, analyzing the quality of the disclosure supporting the application. Our review aimed to understand how companies have explained actions taken and the resulting outcomes as they apply the Code’s principles.

Figure 1: Overall compliance to the Code by companies
OVERALL COMPLIANCE TO THE PROVISIONS OF THE CODE (%)

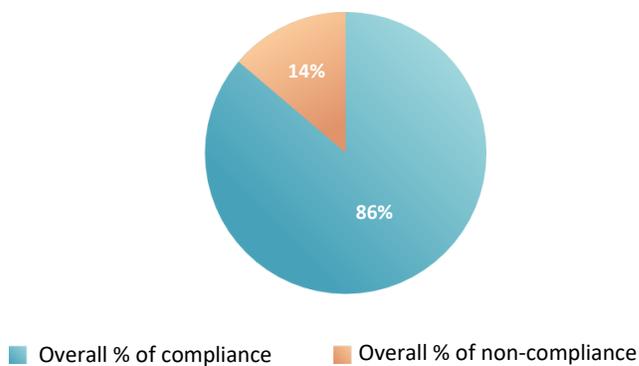
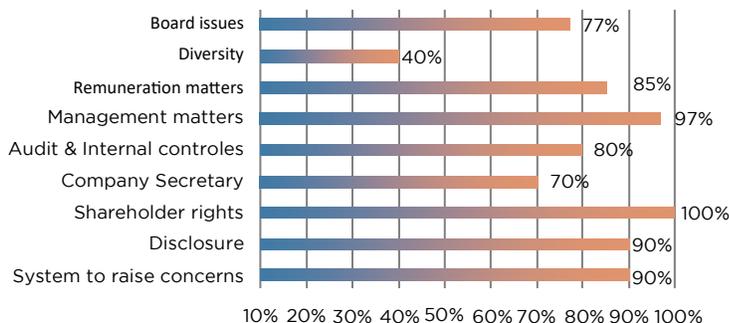


Figure 2: Overall compliance with board Provisions
OVERALL COMPLIANCE WITH THE PROVISIONS (%)

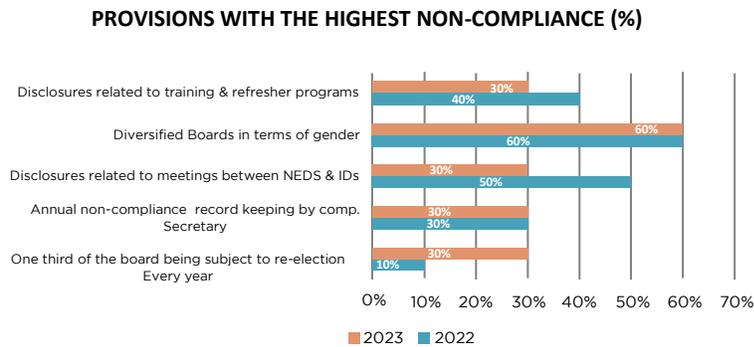


Overall, companies complied with an average of 86% of the Provisions of the Code, indicating that there are areas where further improvements can be made. However, it is worth noting that, except for one company, most other companies failed to comply with only a few Provisions of the Code.

Furthermore, we found eight companies (80%) disclosing departures from at least one Provision of the Code, demonstrating that many companies recognize that the Code is ‘comply or explain’. Similarly, this also demonstrates the benefits of a code-based approach to governance, in that it allows companies to choose bespoke governance arrangements that suit their particular circumstances provided they are still applying the overarching Principle

In addition, we are pleased to note that there was an improvement with the level of overall compliance with the Code Provisions compared to last year.

Figure 3: Provisions with the highest rate of non-compliance



The Provision with the highest rate of non-compliance was diversified boards in terms of gender, which is the same as previous year. Other areas of high non-compliance include;

- Disclosures related to Board trainings and refresher programs.
- Disclosures related to meetings between non-executive and independent directors.
- Annual record keeping of the company’s non-compliance with the Code and all relevant laws & regulations, and;
- One third of the board being subjected to re-election.

However, we can also see improvements in compliance in some of these Provisions compared to previous year.

While we are pleased to see the efforts made by companies in trying to comply with the provisions of the Code, this year’s review indicates that there are areas which require further improvement.

2.1.2 Explanations for Code Departures

When companies do depart from a provision, they must still provide clear and meaningful explanations for any departures from the Code.

Majority of the companies have provided sufficient explanations where there has been non-compliance, however, many of the trends observed last year remain. As such, there were instances of unexplained departures as well as instances of boilerplate reporting lacking the detail required.

For example, one company failed to disclose information related to remunerations of board members and details of key senior managers. In both instances, no explanation was provided for the non-compliance. Similarly, some of the explanations provided by companies did not meet expectations. The following is an example of one such company’s explanation regarding their non-compliance to gender diversity in the Board.

KEY MESSAGE

The ‘comply or explain’ nature of the Code allows companies to adjust their approach to governance to their particular circumstances and business model. Companies must, of course, clearly explain these departures and ensure that they continue to apply the Code’s Principles.

EXAMPLE

“The composition of the Executive and Non-Executive Directors in the Board satisfies the requirements laid down in the Listing Rules of the Maldives Stock Exchange and the code of best practices in corporate governance issued by the Capital Market Development Authority.”

The above explanation does not address the non-compliance issue in question, lacks clarity and does not explain the actions taken by the company to move towards compliance.

An example of good quality reporting regarding the non-disclosure of individual remunerations of key executives is as follows;

EXAMPLE

“A total of MVR 22.04m was paid as remuneration (including variable components and short-term benefits) to the CEO & Managing Director and key executives during the year 2023. Disclosure of remuneration of key executives which include details on level and mix of remuneration package, and individual remunerations paid to the CEO & Managing Director as well as key executives are treated as company confidential and withheld due to competitive reasons.”

Overall, there was a slight improvement in explaining Code departures, with some explanations being understandable and persuasive. However, companies could further improve their explanations providing a clear rationale for the non-compliance and explain the impact it had.

KEY MESSAGE

To improve disclosures, companies must;

- *move away from declaratory statements and provide specific disclosures.*
- *provide clear and meaningful explanations when departing from the Code.*

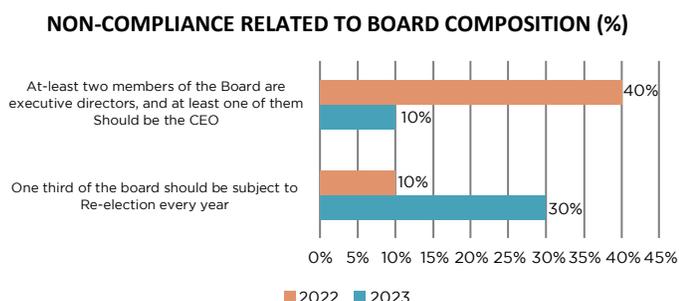
2.2 Board Issues

2.2.1 Board Composition

The Board should have a mix of executive, non-executive and independent directors to ensure active, unbiased and diverse advice is brought to the company. Thus, the Code requires at least half of the Board to be comprised of non-executive directors, with a majority of such non-executive directors being independent directors. We are pleased to see that all companies have fully complied with this Provision of the Code.

However, some non-compliance was observed in other Provisions related to Board composition as follows.

Figure 4: Non-Compliance with Provisions related to Board composition



Whilst there is a significant improvement in compliance with regards to having the required number of executive directors on Boards, three companies (30%) did not comply with the requirement of one third of the board being re-elected every year.

KEY MESSAGE

It is essential that companies comply with these Provisions in order to ensure Board continuity whilst ensuring that the Board is adequately refreshed.

2.2.2 Diversity

Provision 1.3 (b) of the Code requires the Nomination Committee to take steps to ensure women candidates are sought as part of their recruitment exercise in line with the company’s Board Diversity Policy. Similarly, Provision 1.6 (a) (vi) of the Code requires companies to adopt policies and procedures to ensure women participation on Boards and to have a minimum of 2 female directors on each Board.

Figure: 5 Diversified Boards in terms of Gender

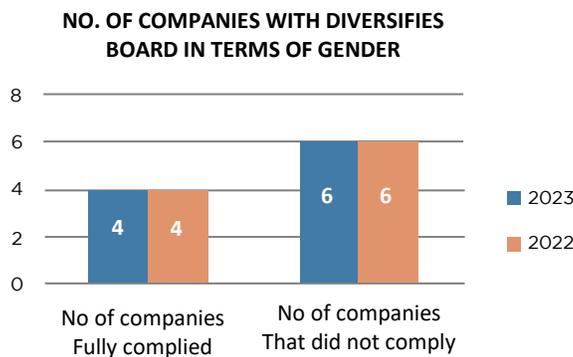
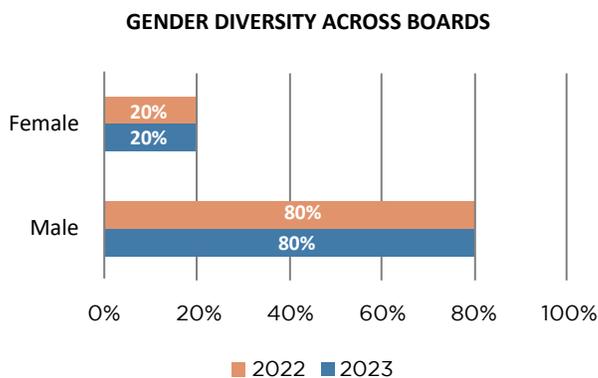


Figure: 6 Gender Diversity across Boards



Similar to the previous year, four companies (40%) fully complied with this Provision while six companies (60%) did not meet the requirement of having a minimum of 2 female directors on Board. It is also disappointing to see that, from the six companies which did not comply with this Provision, five companies did not have any female representation in their Boards.

Nevertheless, we are pleased to see the efforts made by some companies which failed to meet the gender diversification requirements, in order to recruit female directors to their Boards. Below are some examples of actions taken by companies in this regard;

- Company communicated its preference to all institutional shareholders to appoint female candidates in place of those Nominee Directors.
- Applications from female applicants were encouraged during the process of directorship application.
- Encouraged appointment of female members to the Board, by reminding shareholders to make nominations accordingly.

Majority of these companies disclosed that even after such efforts, they did not receive any female nominations or applications for any Board positions.

Whilst we acknowledge the difficulties and restrictions faced by companies in recruiting female directors, we advise the nomination committees to establish and implement formal recruitment policies concerning gender diversity of board members in order to achieve the requirements set forth in the Code. Moreover, the government can play a significant role in nominating female directors to the Board where there is a significant government shareholding. It is also advised that stakeholders, including investors, to remain vigilant and vocal in setting expectations around gender diversity.

KEY MESSAGE

We encourage companies to continue to consider the diversity of their board and senior management positions and take into account the benefits of a diverse board.

2.2.3 Nominations of Board Members

Nomination Committees are responsible for identifying suitable candidates for Board appointments or reappointments and make recommendations to the Board. When nominating new directors, the Nomination Committee should consider the mix of directors' characteristics, experiences, diverse perspectives and skills that is most appropriate for the company and ensure that nominees by the shareholders are reviewed in accordance with the fit and proper criteria set in the Code.

Overall, all the companies complied with this Provision, similar to the previous year.

However, it was observed that one company still has the Chairperson of a regulatory body in their Board as an independent director.

This issue was highlighted in last year's report as well and an amendment was brought to the Code in 2021 in order to tackle this. As such, a new Provision was added which states that "a listed company must not appoint a person to any post or role, if the person has served on the board of a competitor or a regulator unless a period of minimum 12 (twelve) months have passed since the person has left the aforementioned role or position at the competing organization or from the regulator."

Upon further inquiry, the company revealed that shareholders elected this director in 2021, which was before the Code was revised. However, it was observed that the same director was re-elected to the Board in 2023, which breaches this Provision of the Code.

KEY MESSAGE

The Nomination Committee is responsible for ensuring that independent and non-executive director nominees do not have any other affiliations that may affect the director's ability to make independent and impartial decisions. Thus, better efforts must be made by the Nomination Committees to adhere to the fit and proper criteria set forth in the Code during their nominee assessment process and must refrain from appointing members that may have potential conflict of interests in order to ensure an effective Board.

2.2.4 Separation of Chairperson and CEO

In order to ensure an appropriate balance of power and increased accountability, the Chairperson and CEO must be separate persons.

Similar to the previous year, we are pleased to note that the role of the Chairperson and CEO are separated in all the companies.

2.2.5 Duties of the Board as a whole

The Board as whole is responsible for setting the overall strategy of the company, determining company's policies, ensuring adherence to laws and regulations, assessing and guiding company performance and overseeing the company's financial operations. In addition, the Board must meet regularly and as warranted by particular circumstances.

Consistent with the previous year, all companies complied with this Provision, except for one requirement. The Board is required to establish policies formalizing the approach to Board diversity including strategies to recruit female directors.

However, our review found that some companies do not have specific policies on Board diversity and therefore, it is advised that companies strengthen their efforts to comply with this requirement going forward.

Overall, companies complied with this Provision satisfactorily by disclosing information related to the roles of the Board and management, Board and Sub-committee meetings and attendance and details about company and Board performance evaluation.

KEY MESSAGE

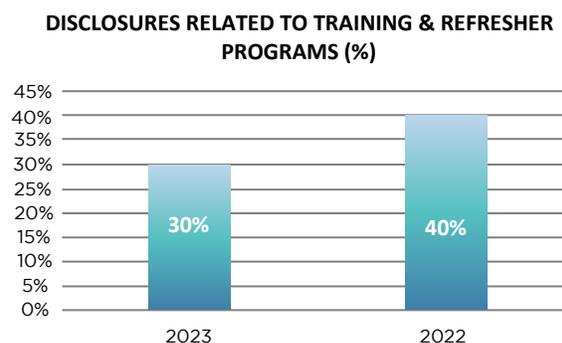
The key responsibility of the Board is to ensure the company's success by directing the company's affairs, whilst meeting the appropriate interests of its shareholders and stakeholders. It is essential that the Board respond to their duties with full regard to transparency and accountability.

2.2.6 Trainings

Companies must recognize that directorship is a professional appointment and therefore they should provide opportunities and funds for training of individual directors and the development of the Board.

Consequently, all new directors are required to go through a training on areas of Corporate Governance, relevant laws and regulations and accounting rules and tax matters while the existing directors are required to go through a refresher course on these areas on a continuing basis, at least once a year.

Figure: 7 Level of compliance (%) related to disclosures regarding training and refresher programs



Our review found that this is one of the highest areas of non-compliance similar to the previous year. Thus, this is an area which needs further improvement.

KEY MESSAGE

An overarching board training schedule is beneficial to cover the specific training needs of the board as a whole and improve the decision-making process. Hence, companies are advised that directors receive an annual refresher session on the areas stated in the Code, roles and responsibilities and on directors' fiduciary duties.

2.2.7 Board Committees

Provision 1.8 of the Code requires companies to establish a Nomination Committee, Remuneration Committee and an Audit Committee. Where there are insufficient directors or if the company deems it appropriate, the Nomination and Remuneration Committee can be combined as one committee. In such cases, the reasons for this must be disclosed in the annual report.

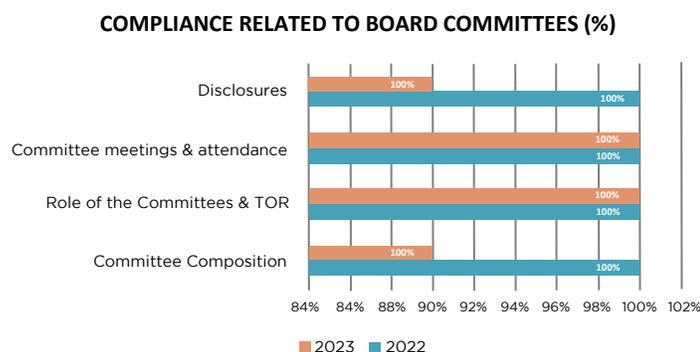
From our review, it was observed that except for one company, all other companies have combined their nomination and remuneration as one Committee. These companies have satisfactorily disclosed the reasons for the committees being combined.

Furthermore, the Code requires that the remuneration committee, nomination committee and the audit committee to be comprised of at least 3 directors, where all of them must be non-executive directors, and majority of whom, including the Chairperson, must be independent.

While there was full compliance to this Provision last year, this year's review found that one company's Nomination & Remuneration Committee (NRC) failed to meet this criterion by having one executive director.

As for disclosures, information regarding committee composition, terms of reference, major tasks carried out by the committees, key decisions, committee meetings and attendance were disclosed in the annual reports comprehensively. Nevertheless, it was found that one company's RNC did not disclose remuneration details of the Board and management, and no explanation was provided for non-disclosure.

Figure 8: Level of compliance (%) related to Board Committees



Overall, all the companies complied with the requirements under this Provision satisfactorily, however, there is still room for improvement in the non-compliance areas highlighted above.

KEY MESSAGE

It is essential that the Remuneration Committee is made up of entirely independent non-executive directors consistent with the principle that executives should not be in a position to decide their own remuneration.

2.2.8 Remuneration Matters

Provision 2.1 (a) of the Code requires companies to establish formal and transparent procedures for developing policy on executive remuneration. Similarly, Provision 2.3 and 2.4 requires companies to provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration for the Board and top Management in the company's annual report. The company must also report to the shareholders each year in the annual report the individual salaries of its directors and its top management.

Overall, there was satisfactory disclosure of Board remuneration by the companies, with nine companies fully complying with this Provision. These companies have disclosed details of collective and individual remuneration of directors. However, it is concerning that one company did not disclose any aspect of board remuneration, that is neither the policies related to remuneration nor the details of the salaries being paid to the directors.

While board remuneration disclosure was satisfactory, we found that some companies are reluctant on disclosing the remuneration of its top management. It was observed that some companies disclosed the aggregate salaries of top management while some companies did not disclose the remuneration of top management at all. The most common reason for non-disclosure was cited as the remunerations paid to CEO and key executives being treated as company confidential due to competitive reasons.

KEY MESSAGE

Proper disclosure and effective engagement on remuneration allows shareholders to raise concerns and provide their views on the remuneration policy and the annual outcome.

2.2.9 Board Performance Evaluation

The Board must evaluate its own performance, both collectively and individually including the performance of the Chairperson, to ensure it is operating effectively and adjust its constitution and policies accordingly. Boards can either conduct the assessments internally or by using an independent external party. The Board must also conduct a formal, rigorous and transparent evaluation of the performance of the CEO and the top management.

We are happy to observe that all the companies disclosed that they have carried out performance evaluation of the Board this year. This is a significant improvement from last year's findings, where three companies failed to disclose any information regarding their board evaluation.

It was observed that, the level of disclosures made regarding board evaluation varied among companies. While some companies provided clear details about the specific areas covered in the evaluation, other companies only made a statement about the company having carried out the evaluation with no further details. Hence, while it was good to see some improvements in reporting approaches, there continues to be few details on how the evaluations took place.

In addition, while there was full compliance regarding the performance evaluation of the Board, this year's review found that two companies failed to disclose any information regarding the performance evaluation of the CEO and key management. Thus, it is encouraged that companies carry out performance evaluation of the top management as well, in order to fully comply with this Provision.

KEY MESSAGE

Companies are reminded that there should be a formal and rigorous annual evaluation of the board, its committees, the Chair and key management. Companies could also disclose further details of the evaluation including the method used for evaluation, areas covered and provide more insight regarding the areas of improvement or areas which needs further improvement.

2.3 Audit and Internal Controls

2.3.1 Audit

All listed companies must have an internal audit function. The Audit Committee should monitor and review the effectiveness of the internal audit activities, including reviewing all internal audit reports and plans and monitoring management's responsiveness, and ensure that it is adequately resourced.

With regard to external audit, the Audit Committee has the primary responsibility for making recommendations on the appointment and removal of the external auditors and the Committee must review the independence and objectivity of the external auditors annually. In addition, the external audit partners should be rotated every five (5) years for all listed companies.

We are pleased to note that, except for one company, all companies have satisfactorily complied with the requirements regarding the internal and external audit functions.

2.3.2 Internal Controls

The Board must ensure that the management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets. In addition, the

Audit Committee must review, at least annually, the adequacy of the company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the management.

While seven companies disclosed satisfactory information regarding their internal control systems last year, this year we are pleased to find that all the companies provided good quality reporting on their procedures established for internal controls and risk management, with an increased number of companies providing good and specific disclosures.

KEY MESSAGE

Effective internal controls systems are essential for the company in pursuit of its objectives and in sustaining its resilience. Monitoring and reviewing these systems are key to maintaining their effectiveness.

2.4 Company Secretary

Companies must employ a qualified Company Secretary to perform all compliance functions of the company. The Company Secretary must keep an annual record of the company's compliance / non-compliance with the Code and all other relevant laws and regulations, and in the event of non-compliance, an explanation should be sought for the record from the Board.

This year's review found that three companies (30%) did not disclose any details on whether the Company Secretary keeps a record of the company's compliance with the Code and relevant laws and Regulations.

KEY MESSAGE

It is essential that the Company Secretary perform their responsibilities effectively in order to ensure the company operates in accordance with set rules, policies, procedures and processes.

2.5 Shareholder Rights

2.5.1 Shareholder Communications

Companies must engage in regular, effective and fair communication with shareholders at general meetings or through other means. Companies must regularly convey pertinent information, gather views or inputs, and address shareholders' concerns. In disclosing information, companies should be as descriptive, detailed and forthcoming as possible.

We are pleased to see that all companies fully complied with the requirements related to this Provision. Similar to the previous year, we are pleased to see that companies have put significant efforts to engage shareholders and also stakeholders at large (customers, employees, regulators, public) through various means. These includes general meetings, Annual Reports, market updates via company Websites and through social media, CSR activities and sponsorships. Through these engagements, companies aimed to ensure that the obligations to shareholders and other stakeholders are understood and met.

2.5.2 Voting Rights

Companies must clearly explain to shareholders their voting rights and procedures so they may fully assert their rights in general meetings.

We are pleased to note that, similar to the previous year, all companies have explained to the shareholders their voting rights and voting procedures prior to the General Meetings.

KEY MESSAGE

Companies must encourage greater shareholder participation at annual general meetings by requiring shareholder attendance, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

2.6 System to Raise Concerns

The Board should introduce a system of ensuring that an appropriate process is put in place to enable employees or management to raise any concerns that they have, whether on a confidential basis or otherwise, of any non-compliance or fraud or other misdemeanor within the company.

It was observed that all the companies have established mechanisms for raising concerns for employees. While some companies have established formal whistleblower policies to encourage employees to report on any suspected misdoings, other companies have established 'support hotlines' to raise concerns.

KEY MESSAGE

The board should routinely review these arrangements and the reports arising from their operation. It should ensure that arrangements are in place for the proportionate and independent investigation on such matters and for follow-up action.

2.7 Sustainability Reporting

The main purpose of a sustainability report is to present a balanced representation of the company's performance and management practices beyond the financial reports, thereby providing stakeholders with a clearer understanding of its strategy and ability to maintain and improve future performance.

Even though it is not mandatory to report on sustainability initiatives this year, we are pleased to see that seven companies (70%) have voluntarily included a section on sustainability reporting in their annual reports. While some companies have briefly stated their ESG efforts, it is encouraging to see that most companies have comprehensively reported on their sustainability initiatives.

We are also delighted to highlight that CMDA has launched the 'Maldives Sustainability Reporting Framework' in October 2024. The framework is mandatory for listed companies in the Maldives and we encourage State-Owned Enterprises (SOEs), financial institutions, and private businesses to adopt the framework. This is a crucial step towards enhancing the company's transparency and sustainability, building a more resilient future for all.

KEY MESSAGE

The reporting regime under the Maldives Sustainability Reporting Framework this will commence in the year 2026 and companies will be obligated to report on all the mandatory metrics.

3. Conclusion

This report dives into a selection of corporate governance issues assessing the quality of reporting against the Code. Overall, we are seeing some improvements in corporate governance reporting compared to last year, but there are still areas which require more attention.

On that note, one of the key areas which needs further improvement is the application of the 'comply or explain' approach. The Code offers companies the flexibility to depart from its Provisions, however, on such instances, it is essential that companies fully disclose why they deviate from them. Without this transparency the comply or explain framework is of little benefit to companies or their stakeholders.

Moreover, practices related to the nomination and vetting process of board members needs to be strengthened. Similarly, companies must strengthen their efforts to recruit female directors to the Board in order to achieve its gender diversity goals, improve disclosures related to the training and refresher programs of Board members, carry out the process of re-electing one third of the Board every year and make sure that the Company Secretary's compliance related responsibilities are carried out effectively.

Nonetheless, we are pleased to see several good examples and improvements in reporting on some Provisions compared to last year. These include disclosures related to board performance evaluation, composition of the Board Committees to include two executive directors and sustainability reporting. We are also pleased to highlight continuous good reporting in the areas of internal controls, shareholder and stakeholder engagement and disclosures related to Board Committees.

The Code is an important part of corporate governance framework in Maldives and it intends to raise the governance standards of listed companies. The key purpose of the Code is to make listed companies more resilient and competitive by demonstrating good corporate governance, and wider issues affecting the environment and society, as well as clear and transparent disclosure, while minimizing burden to the business. Thus, we will continue our assessment of reporting against the Code by companies in the scope, to drive good governance practices and raise standards in weaker areas to support a well-functioning market.



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