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# ROSC

## Report on the Observance of Standards and Codes (ROSC)

CORPORATE GOVERNANCE  
COUNTRY ASSESSMENT

The Kingdom of Morocco

June 2010

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# About the ROSC

## Overview of the Corporate Governance ROSC Program

### What is corporate governance?

Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital.

The OECD Principles of Corporate Governance provide the framework for the work of the World Bank Group in this area, identifying the key practical issues: the rights and equitable treatment of shareholders and other financial stakeholders, the role of non-financial stakeholders, disclosure and transparency, and the responsibilities of the board.

### Why is corporate governance important?

For emerging market countries, improving corporate governance can serve a number of important public policy objectives. Good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks reduce investor confidence, and can discourage outside investment. Also, as pension funds continue to invest more in equity markets, good corporate governance is crucial for preserving retirement savings. Over the past several years, the importance of corporate governance has been highlighted by an increasing body of academic research. Studies have shown that good corporate governance practices have led to significant increases in economic value added (EVA) of firms, higher productivity, and lower risk of systemic financial failures for countries.

### The corporate governance ROSC assessments

Corporate governance has been adopted as one of twelve core best-practice standards by the international financial community. The World Bank is the assessor for the application of the OECD Principles of Corporate Governance. Its assessments are part of the World Bank and International Monetary Fund (IMF) program on Reports on the Observance of Standards and Codes (ROSC).

The goal of the ROSC initiative is to identify weaknesses that may contribute to a country's economic and financial vulnerability. Each Corporate Governance ROSC assessment benchmarks a country's legal and regulatory framework, practices and compliance of listed firms, and enforcement capacity vis-à-vis the OECD Principles.

- The assessments are standardized and systematic, and include policy recommendations and a model country action plan. In response, many countries have initiated legal, regulatory, and institutional corporate governance reforms.
- The assessments focus on the corporate governance of companies listed on stock exchanges. At the request of policymakers, the World Bank can also carry-out special policy reviews that focus on specific sectors, in particular for banks and state-owned enterprises.
- Assessments can be updated to measure progress over time.
- Country participation in the assessment process, and the publication of the final report, are voluntary.

By the end of October 2010, 75 assessments had been completed in 59 countries around the world.



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## Contents

Executive Summary.....	5
Landscape.....	9
Key Findings.....	15
Board practices.....	15
Disclosure and transparency.....	19
Risk, control and audit processes.....	25
Shareholder rights.....	29
Commitment and enforcement.....	34
<b>Assessment and Recommendations.....</b>	<b>37</b>

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The World Bank does not guarantee the accuracy of the data included in this work.

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This Corporate Governance ROSC was carried-out and drafted by Deborah Eskinazi, Corporate Governance Specialist, and Sebastian Molineus, Senior Operations Officer, with important inputs from Alexander Berg and David Robinett all with the Corporate Governance Group at the World Bank. Françoise Clottes, former Country Manager, and Laila Moudden, Program Assistant, both with the Morocco Country Management Unit, provided invaluable support and inputs to the Corporate Governance ROSC. Philippe de Meneval, Cedric Mousset (both with the World Bank's MENA Finance and Private Sector Development team), and Jean-Michel Lobet (Private Sector Specialist with the Doing Business unit) peer reviewed and helped shape the final report through their thoughtful and insightful comments.

Much of the legal and regulatory analysis of this Corporate Governance ROSC is based on an in-depth review of the legal and regulatory framework conducted by the legal consulting firm Juristructures.

# Executive Summary

The Kingdom of Morocco (Morocco) has made important economic strides this past decade, averaging five percent of economic growth. Morocco's financial markets have moreover managed to withstand the global financial crisis for which, by most accounts, good corporate governance played a contributing factor. Of note is that the Government of Morocco has made a number of changes to the country's corporate governance framework since 2004, following most of the recommendations outlined in the Corporate Governance ROSC of 2003. For example:

1. ***The legal and regulatory framework has been updated and modernized.*** Between 2004 and 2008, a number of changes were made to the legal and regulatory framework, serving to strengthen shareholder rights, disclosure, and the role of the board. More specifically, the role of the board – to guide strategic decision-making and provide managerial oversight – has been clearly defined, the rules relating to related party transactions have been tightened, and shareholders may participate in the general assembly by videoconference.
2. ***The enforcement framework was strengthened,*** and the securities regulator (*Conseil Déontologique des Valeurs Mobilières* or CDVM) and central bank (*Banque Al-Maghrib* or BAM) have made important strides in enforcing the legal and regulatory framework. Both institutions have the necessary resources and commitment to enforce the legal and regulatory framework in a fair and even-handed manner. Banks and companies report close yet fair supervision by their respective regulators. And while fines and penalties have been raised to serve as a deterrent, both regulators do not view enforcement as a blunt instrument, but instead work in close partnership with the private sector to ensure that laws and regulations are understood and applied voluntarily to avoid implementation on a 'tick-box basis' (though the implicit and real threat of sanctions exists).
3. ***A broad stakeholder education process for corporate governance was launched to ensure for private sector buy-in.*** To build commitment for corporate governance reforms by the private sector, a National Corporate Governance Commission (*Commission Nationale Gouvernance d'Entreprise* or CNGE) – jointly created and led by the public (Ministry of Economic and General Affairs or MEGA) and private (*Confédération des Grandes Entreprises Marocaines* or CGEM) sectors. Created in 2007, the CNGE developed the Moroccan Code of Corporate Governance (MCGC) in 2008. Of note is that the MCGC has three separate annexes targeting corporate governance issues specific to SME and family-owned enterprises, banks, and SOEs. In early 2010, a partnership between the public and private sectors also launched the Moroccan Institute of Directors (*Institut Marocain des Administrateurs* or IMA), which conducted its first training courses the same year.

Overall, this spirit of cooperation and collaboration between the private and public sectors has served to ensure that the business case for corporate governance has been made and understood by most companies. As a result, and since the last ROSC was published in 2003, an important number of publicly listed companies, banks, and large groups have made important (if nascent) strides in implementing good corporate governance practices. For example:

- ***Most board practices have been strengthened.*** Non-executive directors, if rarely independent, have been elected to serve on boards, which now do guide and supervise management on behalf of the company and its (majority, if not minority) shareholders. Key board policies have been approved or are currently being formulated, and board structures are being formalized, most notably through the establishment of audit and other board committees. Management reports close supervision by the board. Importantly, many companies have separated management from control, and boards are increasingly installing professional managers that are free to manage the company on a day-to-day basis under an agreed-upon strategy.
- ***Financial reporting has improved markedly in terms of the timeliness and quality.*** Today, all publicly listed companies and banks comply with the legal requirement of fully and publicly disclosing their annual audited financial statements, albeit in the *Journal of Finance*, which is difficult to access publicly.
- ***Basic shareholder rights are in place,*** including: (i) secure methods of ownership registration; (ii) the ability to freely convey and transfer shares; (iii) well defined shareholder information rights; (iv) the ability to elect and

remove directors; and (v) share in the profits of the company. Shareholders within the same class of shares have equal rights in term of dividends, and shareholders generally do have the right to participate in and be sufficiently informed on decisions concerning fundamental corporate changes, such as on changes to the company's articles of association or extraordinary transactions.

Morocco can further reduce the gap between its corporate governance framework and the OECD Principles of Corporate Governance. In particular, Morocco should:

- ***Continue the legal and regulatory reform process.*** to further close the gaps identified by this ROSC Assessment in the company law, securities market law, banking law, and relevant capital and financial market regulations – in substance and not only form; should this not be the case in the near future, then the authorities may wish to reassess whether to require companies to report their compliance with the MCGC on a 'comply-or-explain' basis. To attract more outside investors, key laws and regulations should further be made available online in English. Only a few companies, especially banks, disclose their financial statements in annual reports available on their websites.
- ***Reform the enforcement framework,*** in particular the court system, to better ensure that minority shareholders are able to enforce their rights in an efficient and cost-effective manner. Indeed, in absence of an effective court system, shareholders are unable to hold directors and officers accountable for a breach of their duties, although a limited number of shareholders have brought successful suits against directors for clear infringements against the legal and regulatory framework. The independence of the CDVM vis-à-vis the public sector could be strengthened over time, emulating recent accomplishments undertaken by BAM in this respect. Also, the CDVM could regularly monitor and publicly disclose the implementation of the MCGC by companies – thus signaling the importance of corporate governance. Finally, an independent audit oversight board may further build trust in the audit profession<sup>1</sup>.
- ***Improve upon transparency and disclosure.*** Banks and companies should be required to publish a full annual report, which would include their audited financial statements and management discussion and analysis (*rapport de gestion*). Companies should moreover be required to report under a single accounting framework and would ideally be required to prepare their consolidated accounts according to International Financial Reporting Standards (IFRS) rather than being allowed to select between IFRS and Moroccan Accounting Standards (MAS). In addition, the full financial statements are not easily available as companies are only required to publish them in a financial journal. Investors would benefit greatly from more stringent non-financial disclosure standards, in particular with respect company beneficial ownership, risk management and control, and corporate governance structures. The BAM and CDVM should build on the Casablanca Stock Exchange's (*Bourse de Valeurs de Casablanca* or BVC) online presence and develop a centralized online website offering investors a one-stop shop for financial and non-financial information, and further support “best governed company” and “best disclosure” competitions.
- ***Further strengthen board oversight over risk management, internal control, and audit structures.*** Some banks and companies have dramatically improved their risk management, internal control, compliance, and internal audit structures, though efforts in other institutions remain nascent. Companies in particular will wish to ensure that the internal audit function reports to the board's independent audit committee and not exclusively to management, and that risk management and internal control processes are not limited to an individual risk manager and controller but are culturally embedded throughout the organization. In addition, companies should ensure that the audit firms or at a minimum lead audit partners are rotated to protect themselves against potential capture.
- ***Support IMA to roll-out its director training program.*** In the end, the key to improving corporate governance will be to build a cadre of qualified, experienced, and professional owners, board members, and managers that understand the business case for – and have the tools to effectively implement – good corporate governance. IMA should in this respect continue its efforts to cooperate with international organizations, (as it did for

<sup>1</sup> According to the OECD, many countries have introduced measures to improve the independence of auditors and to tighten their accountability to shareholders. To deal with, *inter alia*, self-review, a number of countries are tightening audit oversight, along the lines of the Principles of Auditor Oversight issued by IOSCO in 2002, through an independent entity.

instance with the Global Corporate Governance Forum) and other institutes of directors in building a world class director training program. Key stakeholders should encourage directors and managers to attend such course, specifically the: (i) *Caisse de Dépôt et de Gestion* (CDG) and other institutional investors vis-à-vis their nominee directors; (ii) CDVM and BAM, who may wish to “encourage” the regulated entities under their supervision to send their board members and managers to participate, in addition to their own supervisory staff; (iii) key business associations, e.g. the CGEM, vis-à-vis their membership; and (iv) the majority owners.

In the end, a sound understanding of good corporate governance and why it matters is a prerequisite for ensuring that legal, regulatory, and institutional reforms are properly implemented—in substance and not only in form.

The table below provides an overview of key recommendations to improve corporate governance in Morocco. A more detailed set of recommendations is detailed in the section “Gap-Analysis and Recommendations” of this report.

<b>Recommendations</b>	<b>Implementation</b>
The Moroccan authorities should review the legal and regulatory framework with respect to corporate governance.	<p>Action steps:</p> <ul style="list-style-type: none"> <li>- The GoM should form a task force of key stakeholders to serve as a steering committee and drafting team for legal and regulatory reforms.</li> <li>- The task force should identify amendments to legal framework, based on this report and underlying Detailed Country Assessment database.</li> <li>- The GoM should organize a thorough stakeholder engagement process to ensure that there is widespread buy-in and that comments are duly recognized and published online.</li> </ul>
The Moroccan authorities should encourage widespread application of the MCGC.	<p>Action steps:</p> <ul style="list-style-type: none"> <li>- The heads the key regulatory bodies and/or government authorities should meet with and firmly encourage majority owners, chairman and board members of banks and companies to apply the MCGC as appropriate, and undergo a minimum amount of training on corporate governance and related issues, with the implicit understanding that training could be made mandatory should companies not send their directors to attend.</li> <li>- The public and private sectors should organize events to raise awareness and build the business case for good corporate governance.</li> <li>- The CDVM should implement a regular corporate governance monitoring system, for example, an annual survey on corporate governance practices and review of disclosure in annual reports.</li> </ul>
All public interest companies should be required to publish an annual report including the full set of financial information and relevant non-financial information.	<p>Action steps:</p> <ul style="list-style-type: none"> <li>- The Company law should be amended to require such publication.</li> <li>- Companies should be encouraged to publish their annual reports online.</li> </ul>
Director training should be developed and encouraged.	<p>Action steps:</p> <ul style="list-style-type: none"> <li>- IMA should develop training modules on key corporate governance themes, including on board related issues (e.g. board</li> </ul>

	<p>evaluation, remuneration, nomination), the control environment (risk, internal audit, and controls), and disclosure.</p> <ul style="list-style-type: none"><li>- A list of directors attending the training should be disclosed.</li><li>- The CDVM and BAM should work closely with IMA to help the Institute provide training (i.e. The CDVM could inform IMA of specific needs in companies if it conducts surveys suggested above).</li><li>- The CDG and other investors should encourage their nominee directors to attend IMA's training events.</li></ul>
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# Landscape

## The Corporate Governance Landscape

### Introduction

This Corporate Governance ROSC Assessment (CG ROSC) was commissioned by MEGA. The primary target audience of this CG ROSC is the government of Morocco and those responsible for setting and enforcing corporate governance policy. Other stakeholders, in particular investors, financial intermediaries, business associations, the audit and legal professions, and indeed the companies themselves, can benefit from this report as well in terms of assessing and implementing good corporate governance.

The purpose of this CG ROSC is twofold:<sup>2</sup> (i) to benchmark Morocco's legal and regulatory framework, practices, and enforcement framework against the OECD Principles of Corporate Governance (OECD Principles), the international reference point for good corporate governance; and (ii) develop a series of recommendation to reduce or close potential gaps.

The OECD Principles focus on publicly traded companies, both financial and non-financial, but are equally applicable to other public interest entities, such as large, non-listed joint stock companies and SOEs.<sup>3</sup> By extension, this CG ROSC focuses on publicly traded companies, but also touches upon corporate governance issues relevant to other publicly interest entities, notably non-listed banks, non-bank financial institutions (NBFIs), SOEs, in addition to large non-listed companies.

This present section on Morocco's corporate governance "landscape" provides an overview of the economic, legal, market, and other factors that bear on corporate governance practices in Morocco, which have been taken into consideration in developing the report's analysis, recommendations, and action plan.

### The economic setting

Morocco has achieved important economic gains over the past decade. Real GDP growth has averaged 5.4 percent per year between 2001 and 2007, against an average of 3.4 percent over the previous decade.<sup>4</sup> While real GDP growth fell to 2.7 percent in 2007, it recovered sharply to 5.6 percent in 2008 and 4.9 percent in 2009,<sup>5</sup> an impressive accomplishment given the global financial crisis. Morocco's ability to withstand the direct effects of the global financial crisis was linked to its economic policies, including economic diversification, prudent banking supervision by BAM, and restrictions on foreign exposure to structured instruments by institutional investors and financial institutions.

Despite these economic gains, Morocco still faces important challenges. During 2008, the volume of Moroccan exports declined by six percent, tourism receipts receded by 3.5 percent, workers' remittances dropped by 2.4 percent, and foreign

 **Morocco has made strong economic strides since 2001, with economic growth averaging 5 percent; and corporate governance reforms are believed to have contributed to this growth trajectory ...**

<sup>2</sup> This Corporate Governance ROSC differs from previous ROSC Assessments in that the information contained in this report is based on a revised assessment methodology. More specifically, in response to the revised OECD Principles of 2004, as well as the 2008-2009 global financial crises, the World Bank has updated its methodology, revising its old and developing a new set of some 650 data points to more objectively benchmark a country's corporate governance framework against the OECD Principles of Corporate Governance. The data is complemented by qualitative findings made during a series of meetings with key stakeholders in Morocco.

<sup>3</sup> Unless otherwise designated, all references to "companies" in this ROSC report shall mean companies that are publicly listed on the BVC, as well as large non public companies. These may include banks, insurance companies, and companies in the 'real sector'.

<sup>4</sup> The World Bank: World Development Indicators database, 1 July 2009.

<sup>5</sup> Morocco Economic Update, the World Bank; Spring 2009; Government of Morocco.

direct investments declined by 31 percent.<sup>6</sup> Morocco is confronted with inadequate social indicators relative to the country's income level, high unemployment (9.8 percent in 2007, 9.6 percent in 2008, 9.1 percent in 2009<sup>7</sup>), especially among youth, and the economic marginalization of still large segments of the population (14 percent in 2004 and nine percent in 2007).

The financial and private sector reform process will need to be maintained to continue and build private sector competitiveness, thus sustaining economic gains and ensuring for future growth and employment. And corporate governance improvements will play a key role in this respect, supporting the ongoing development of the financial and capital markets, reducing vulnerability to future financial crisis, strengthening firm competitiveness, and improving Morocco's ability to mobilize, allocate and monitor investments in support of sustained economic growth.

 and has had a positive impact on Morocco's financial and capital markets, as witnessed by Morocco's ability to weather the financial crisis.

### Corporate governance and Morocco's financial and capital markets

The financial markets have surged in recent years and have weathered the global financial crisis relatively well, especially compared to most other countries.

With bank assets equivalent to 113 percent of GDP in 2009 (vs. 81 percent in 2003),<sup>8</sup> banks play a central role in the Moroccan financial market. The system remains dominated by the six largest banks, which hold 85 percent of system assets, and the corporate governance of these institutions is of great importance to sustain further growth. A surge in credit to the private sector over the past few years demonstrates the success of the authorities' policies to deepen financial intermediation, due to, *inter alia*, improved risk assessment by banks; the state's divestiture of some of its banking assets coupled with strategic ownership stakes; and important progress in the area of financial supervision by the BAM.<sup>9</sup> From 2007 to 2009, total banking sector assets increased by 26 percent to \$95.3bn,<sup>10</sup> which is above the 2006's high annual growth rate of 18.1 percent, although annual growth rates provide a slightly nuanced picture, with eight percent nominal annual growth in 2009.

Up to the 2007 global financial crisis capital market represented a growing share of the financial sector with stock market capitalization at 77 percent of GDP in 2008, though market capitalization declined to 71 percent of GDP in 2009.<sup>11</sup> As can be seen from Figure 1 below, the Moroccan capital market has grown significantly over the past decade, in particular as of 2005 when many legal, regulatory, and institutional reforms were launched. Market capitalization, trading volume and value, and liquidity grew importantly up to 2007 (see Figures 2-5) and the capital market weathered the global financial crisis rather well, falling only modestly (approximately 13 percent) compared to other regional and international markets - again a testimony of, *inter alia*, improved corporate governance related laws and regulations, regulatory enforcement and supervision, and long-term or "patient" capital by Morocco's institutional investors, that all led to improved corporate governance practices at the company level.

<sup>6</sup> Morocco's economy is the 58<sup>th</sup> largest in the world, with a population of just under 35 million. [Morocco Economic Update, the World Bank; Spring 2009.](#)

<sup>7</sup> Morocco government.

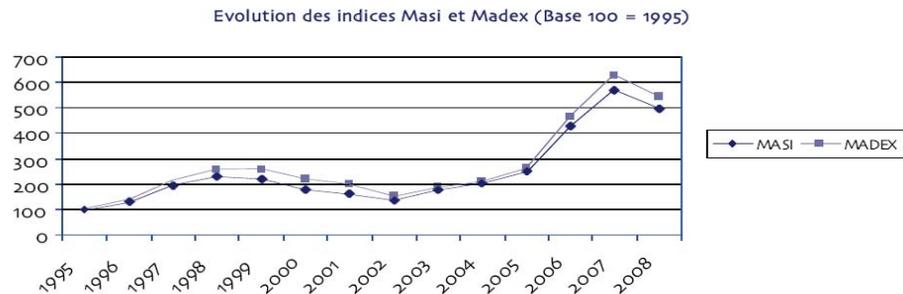
<sup>8</sup> BAM, Annual report 2009.

<sup>9</sup> International Monetary Fund, "Morocco: Financial System Stability Assessment--Update," Country Report No. 08/333, Washington D.C.: IMF, October 2008.

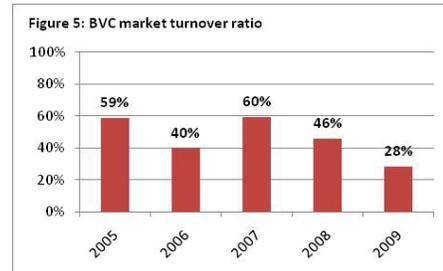
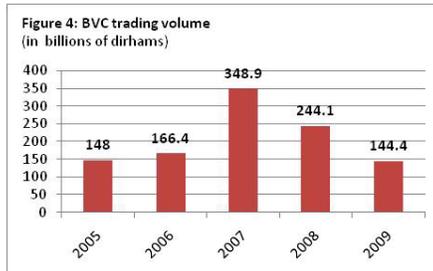
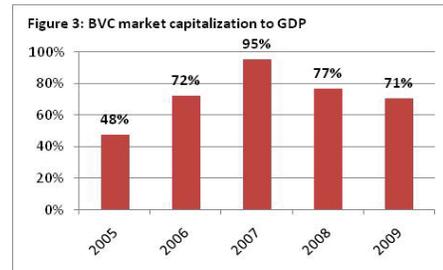
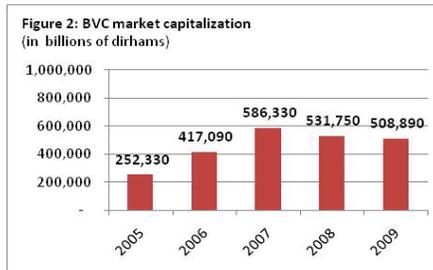
<sup>10</sup> BAM, Annual Report 2009

<sup>11</sup> BVC.

Figure 1: Evolution of the MASI and MADEX Indices: 1995 to 2009



Source : Bourse de Casablanca



Source for Figures 2 - 5: BVC

Nevertheless, a move by companies from bank credit toward the capital markets remains limited in its overall scope, and the number of companies traded is still relatively limited at 77, while the overall market capitalization and trading is still dominated by a handful of companies – where again corporate governance improvements will be part and parcel to sustaining the capital market. Banks thus continue to be the main source of private sector financing and remain the primary “market based conduit” to further improve-upon corporate governance practices in their investee companies.

### Demand for corporate governance among public interest entities

Moroccan law allows for economic entities to be incorporated as joint stock companies (*sociétés anonymes*), limited liability companies (*sociétés à responsabilité limitée*), and partnerships (*société en commandite, société en commandite par action, société en nom collectif*). Today, mid-2010, there are approximately 1,500 registered joint stock companies in Morocco (of which 77 are publicly traded on the BVC), including 15 banks (of which six are traded on the BVC), and 17 insurance companies (three of which are traded on the BVC). In addition, in December 2009, there are 721 SOEs, of which 481 are organized as joint stock companies and 11 are listed on the

**M** Morocco contains a critical mass of companies in which corporate governance is relevant

BVC. The remaining 240 SOEs have not been incorporated.<sup>12</sup>

Corporate governance is of relevance to all of these corporate forms given their public interest function and the government of Morocco has a legitimate interest in ensuring that good corporate governance is applied to protect minority shareholders, depositors, and other stakeholders. Contrary to many other MENA countries, an increasing number of companies (listed and non-listed, state or privately owned) are starting to separate ownership from control and are no longer dominated by a single individual who serves as owner, board chairman, and CEO. Moreover, a number of these companies continue to grow, bringing a need and demand to further formalize roles and responsibilities between the main governing bodies, as well as adopting formalized policies and structures in such areas as internal controls and information disclosure. Finally, a number of awareness raising events and the MCGC has created demand for corporate governance reforms among a great number of companies.

**♀** *And despite concentrated ownership structures, Moroccan companies have for the most part recently embraced good corporate governance.*

### Ownership structures and corporate governance

Ownership remains concentrated in most companies and the largest three shareholders hold controlling stakes of 75 percent on average. From a market perspective, concentrated ownership risks negatively impacting market liquidity, trading, and price discovery. From a corporate governance perspective, concentrated ownership poses a risk in terms of protecting minority shareholders against abusive actions by controlling owners and more generally discourages shareholders from participating in the governance process. This holds particularly true in family-owned and SOEs structures, in which vested interests often hinder the introduction of corporate governance reforms at the company level. Indeed corporate governance issues found in many SOEs worldwide include: (i) a lack of properly defined and disclosed commercial and social objectives; (ii) transparent board nomination processes; and (iii) a properly structured and centralized ownership function to allow the state to effectively manage its assets.<sup>13</sup> Family-owned enterprises worldwide in turn bring a unique set of corporate governance challenges, including the need to: (i) formalize policies and procedures (in particular in separating family and business interests); (ii) build formal control structures; (iii) ensure for proper succession planning; and (iv) building independent, qualified, and professional boards that provide both strategic guidance and oversight to management.

Ownership in most listed companies is concentrated in the hands of: Domestic institutional investors who play an important role in the market.<sup>14</sup> Most of these institutional investors, with the apparent exception of a number of mutual funds, do vote their shares and nominate directors to serve on the boards of their investee companies. In particular the CDG, a public financial institution, with a mission of community service, is a major player in the Moroccan economy and promotes public policies for the country's development – including the nomination of directors to serve on the boards of its investee companies. The CDG also contributes to the mobilization of long-term saving and ensures that funds are used towards the

<sup>12</sup> Report on the SOEs Sector, Ministry of Economy and Finances, 2010.

<sup>13</sup> The privatization process was launched by “Discours Royal” on April 8, 1988, which defines economic and social objectives of privatization. Signed in 1989, the law n. 39-89 allows privatization. From the first privatization in 1993 to July 2010, 107 privatizations were carried out, providing a 101 MMDH proceeds to the Kingdom.

<sup>14</sup> The existing pensions systems include the civil servants scheme (*Caisse Marocaine des Retraites* or CMR), the semi-public employees' scheme (*Régime Collectif d' Allocation Retraite - RCAR*), and private sector scheme (*Caisse Nationale de Sécurité Sociale* or CNSS, supplemented by the *Caisse Interprofessionnelle Marocaine de Retraites* or CIMR). The CDG largely serves as a depository and fund reserve manager for CNSS and fund manager for RCAR, but also serves as an institutional investor on its own account. The CDG thus in effect serves as the largest institutional investor in the country, though the 15 banks, 17 insurance companies, and 155 mutual funds (or OPCVMs, which in turn are managed by 15 fund managers, including the CDG, banks, and insurance companies) are thought to own important stakes as well.

economic development of Morocco.

- The CDG is thought to hold approximately 500 directorships and hence has an unparalleled potential to impact the governance practices of its investee companies.<sup>15</sup> On the other hand, many other institutional investors do not play an active role in monitoring or improving upon the corporate governance structures of their investee companies. As a consequence, market-based enforcement mechanisms vis-à-vis corporate governance structures are nascent. Retail investors, as in most other markets and given the absence of an association of investors, are not considered active, i.e. do not generally attend general assembly meetings or vote their shares.
- Foreign strategic investors (e.g. the BMCI is majority-owned (67 percent) by the French bank BNP),
- The state (e.g. *Compagnie Générale Immobilière*, in which the state still holds a 80 percent stake, or the *Banque Centrale Populaire*, where it owns more than 50 percent),
- Financial institutions (both banks, which often retain minority stakes in other banks, and insurance companies, which in turn have important stakes in large parts of the capital market), and,
- Families - albeit on a diminishing basis - through holding companies (e.g. BMCE is majority owned by the company Finance.com, which in turn is majority owned by the Benjelloun family).
- *Omnium Nord Africain* (ONA), which owned approximately 20 percent of the market. However, following the recent merger between ONA and *Société Nationale d'Investissement* (SNI), the new entity, which has since delisted, is selling controlling stakes in major companies in its portfolio.

The free float on the BVC is between 15 percent and 20 percent of the total market capitalization.<sup>16</sup> Most of the free float is held by institutional and not retail investors; only 22.5 percent of the free float is being held by retail investors.<sup>17</sup> Eight to ten percent of the free float is held by foreign investors. With such a small free float, ownership's structure of companies cannot easily change by hostile takeovers.

 **These improvements are partially due to improvements made to the legal and regulatory framework...**

### The laws and regulations that shape corporate governance

Morocco's legal framework for companies is based on French civil law, with minor influences from the German, Ottoman, and *Sharia* legal systems.

The legal and regulatory framework for corporate governance is relatively advanced and in-line with Morocco's current state of economic development (though some argue that it is too heavily based on French law, does not take the emerging market context into account, and is hence too onerous). Most basic laws relevant for corporate governance – the company and banking laws, securities market law, accounting (though no auditing) law,<sup>18</sup> and specialized regulations, including listing rules – are in place, and have recently been updated. The legal framework contains a few overlapping or inconsistent provisions; however, these are not considered material and the legal and regulatory framework is as a whole viewed by the legal profession and market participants as comprehensive, consistent, and coherent. The legal framework is further not subject to temporary decrees and back-dated

<sup>15</sup> Of note is that the CDG is subject to prudential regulations and accounting policies of the Central Bank.

<sup>16</sup> Own research; [www.casablanca-bourse.com](http://www.casablanca-bourse.com). Note that this data is based on the ten largest companies. Also, some market participants estimate that the actual free float is closer to 10 percent in practice.

<sup>17</sup> Own research; [www.casablanca-bourse.com](http://www.casablanca-bourse.com).

<sup>18</sup> While there is no auditing law, BAM Circular n° 21/G/2006 and the Companies law specify the conditions for approval of statutory auditors of credits establishments.

amendments, and is not used in an arbitrary manner by the government.<sup>19</sup> Specific to corporate governance, the Moroccan authorities have made an impressive number of reforms to the legal and regulatory framework since the first Corporate Governance ROSC was undertaken in 2003.<sup>20</sup>

Of particular note is that the Moroccan authorities have a strong track record of consulting and engaging with the private sector in developing new or amending existing laws, as well as then raising awareness of and building the business case for companies to implement these changes. As a result, most companies apply corporate governance provisions contained in laws and regulations, and an important number voluntarily implement a number – though far from all – recommendations contained in the Morocco Corporate Governance Code (MCGC).

And while these laws are available online in French and Arabic,<sup>21</sup> foreign investors would benefit from English translations of the key laws and regulations.

### **Public – private sector commitment to implement corporate governance**

Perhaps most importantly, the Moroccan public and private sectors have demonstrated real commitment and a strong partnership to improve upon corporate governance in Morocco. To begin with, both the public and private sectors have jointly organized a series of events to raise awareness of and build the business case for good corporate governance. Moreover, in 2007, the Ministry of Economic Affairs along with the CGEM created the national commission on corporate governance, the CNGE, involving key public sector institutions and private sector groupings. The CNGE launched the MCGC in March of 2008.<sup>22</sup> A sector specific code in the form of annexes to the MCGC was launched in 2009 for SMEs and family-owned enterprises, and in June 2010 for banks. The CNGE is also in the process of developing a sector-specific code for SOEs, (to be launched by end-of 2010). Of particular note is that although the CNGE issued the MCGC on a voluntary basis, a great number of companies (57 percent, of which 71 percent are listed on the 1<sup>st</sup> tier of the BVC) have since applied parts of the MCGC's recommendations.<sup>23</sup> Finally, to help increase the skill-set of board members and senior managers, the IMA was launched in 2010 in a private public partnership involving companies and institutions.

It is this partnership between the public and private sectors that, lies at the heart of Morocco's successful corporate governance reforms to date. Indeed, the ability of policy makers and companies to develop an appropriate corporate governance framework that both protects investors' rights and at the same time provides sufficient flexibility for companies to tailor corporate governance policies to their own unique structures has enabled companies to embrace corporate governance reforms.

 and a strong commitment from all stakeholders to jointly improve upon corporate governance in Morocco.

<sup>19</sup> Morocco is ranked at the 52<sup>nd</sup> percentile in terms of the 'rule of law' within the WGI Project. See <http://info.worldbank.org/governance/wgi/>

<sup>20</sup> For example, the BAM launched a new banking law in 2006, the Ministry of Industry and Commerce overhauled the company law in 2008, in addition to amending the securities markets law in 2004 and 2007, the CDVM passed a series of regulations between 2004 and 2010, and in 2007, BAM issued a circular on internal controls and corporate governance.

<sup>21</sup> See for example [www.cdvm.gov.ma/Service\\_Documentation/Lois\\_list.jsp](http://www.cdvm.gov.ma/Service_Documentation/Lois_list.jsp) and [www.bkam.ma](http://www.bkam.ma)

<sup>22</sup> The Corporate Governance Commission consists of the Ministry of Economic and General Affairs, BAM, CDVM, CGEM, BdC, GPBM, CJD, OEC, ANPME, FCMCIS, the Ministry of Justice, the Ministry of Economy and Finance, and the Ministry of Public Sector Modernization. The MCGC is the outgrowth of an extremely broad consensus reached between the private and public sectors. It was drafted by the National Corporate Governance Commission, chaired by the CGEM, with secretariat services and coordination provided by the Ministry of Economic and General Affairs. The Commission brought together the above-mentioned stakeholders and benefited from the assistance of the OECD and IFC Global Corporate Governance Forum.

<sup>23</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010. Of the 77 companies listed on the CDV, 46 responded to the survey.

# Key findings

## Board practices

The board of directors is where key corporate governance issues converge. The board is responsible for strategic guidance and oversight of management, and functions as a trustee for shareholders. These are important responsibilities, and the way that the board organizes itself will be an important factor in determining how well it fulfills its responsibilities. A professional, independent and vigilant board of directors is essential for good corporate governance.

The following section analyses the board of directors, in particular how boards fulfill their role and directors fulfill their duties, in addition to board size and composition, structure, compensation, working procedures, and training and evaluation.

**♀** Boards generally understand their primary role of providing oversight over and guidance to management.

### The role of the board

In-line with good corporate governance, the legal framework calls on the board to determine the company's overall strategy and provide management oversight through a system of internal controls and audit processes. The MCGC builds on the board's primary role of strategic guidance and managerial oversight by providing a detailed set of board responsibilities, calling on the board to *inter alia* approve key company policies (e.g. on risk management and succession planning), key performance indicators, and major capital expenditures. Of note is that the legal framework specifically calls on non-executive board members in one-tiered board structures to supervise and oversee management. On the other hand, the board is not specifically called on to take responsibility for the company's corporate governance practices, risk management and control framework, and disclosure policy.

In practice, the majority of boards do appear to guide management in developing and ultimately approving corporate strategy, as well as budgets and major capital expenditures. Eighty percent of company boards stated that their main role was to provide managerial oversight;<sup>24</sup> overall, management reports close supervision and guidance by the board. An important majority of boards (60 percent) help formulate company strategy, and 65 percent of companies have stated that they have developed formalized objectives and key performance indicators, in-line with good practices.<sup>25</sup> On the other hand, 48 percent stated that their strategy was synonymous to their budget, against good practice.<sup>26</sup> Further, most bank boards play an increasing role in managerial oversight, including in creating close link with the internal audit functions and risk management (which is particularly important for financial institutions). A number of company boards on the other hand did not ensure for robust risk management and internal audit processes in their companies, and non-financial disclosure was generally wanting in most respects, highlighting the need for boards to play an increasing role in managerial oversight.

**♀** An increasing number of directors understand their duties of care and loyalty in carrying-out the board's role.

### The duties of directors

The legal and regulatory framework does not contain a comprehensive definition of a director's duties of loyalty and care, though such duties are scattered across the legal and regulatory framework. The MCGC, although only voluntary, does provide a

<sup>24</sup> The 2010 CG ROSC Practices Survey of 32 companies and banks listed on the BVC; June 2010.

<sup>25</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010.

<sup>26</sup> The 2010 CG ROSC Practices Survey of 32 companies and banks listed on the BVC; June 2010.

comprehensive definition in-line with good practice. In a number of companies, directors do appear to act on an informed basis, in good faith, with due diligence and care, and in the best interest of the company and shareholders. This is of particular note given the concentration of ownership in most companies and majority owner's control over the director nomination and election process for board members, which often leads to acquiescence and lax oversight.

One explanation for this apparent paradox may be that institutional investors holding strategic minority stakes – in particular the CDG – are able to and do in practice elect outside board members to serve on boards, and generally hold the board accountable for their actions. Many of these directors are recognized for the professionalism, skill-set, and objectivity they bring to board deliberations, and provide a positive and influential example to other board members.

Moreover, minority investors have in a number of cases successfully brought cases in front of the courts – and this despite the fact that most courts are considered inefficient, time consuming, and resources intensive. Finally, the Moroccan Association of Enterprises (*Confédération Générale des Entreprises du Maroc* or CGEM) launched charter of social responsibility of the company for its members companies, which has heightened board members' awareness of their duties towards the company and shareholders. This charter appears to have been widely implemented by CGEM's members, and 83 percent of companies report having adopted such code.<sup>27</sup>

Nonetheless, a number of board members appointed by some of the largest institutional investors are known to hold up to twenty directorships, which would clearly impact their ability to properly fulfill their duty of care towards the company. And an ongoing, if diminishing number of board members continues to view their directorships as a privilege rather than responsibility.

**Boards size and composition are generally in-line with good practice; however, independent directors are the exception rather than the rule.**

### Board size and composition

Most boards are best characterized as shareholder boards, i.e. are largely composed of non-executive board members who are nominated and elected by the majority owners. More specifically Moroccan boards may be characterized as follows:

- **Board size:** Company boards are legally required to have at least three and not more than 15 (12 for non-listed companies) board members. In practice, most companies have approximately nine board members.<sup>28</sup> This number appears sufficient for most companies to ensure for an adequate mix-of-skills on the board and staff their board committees.
- **Board nomination and election processes:** The legal framework defines the election process but is silent on board nomination processes. In practice, minority shareholders are not known to actively participate in general assemblies, and thus nominate and elect directors to the board. Cumulative voting is not foreseen in the legal and regulatory framework.<sup>29</sup> Institutional investors on the other hand, even when holding minority positions, often have shareholder agreements in place that

<sup>27</sup> The 2010 CG ROSC Practices Survey of companies listed on the BVC; June 2010.

<sup>28</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010.

<sup>29</sup> Cumulative voting allows minority shareholders to cast all their votes for one candidate. To illustrate: a publicly traded company has two shareholders, one holding 80 percent of the votes and another with 20 percent. Five directors need to be elected. Without a cumulative voting rule, each shareholder must vote separately for each director. The majority shareholder will obtain all five board seats, as s/he will always outvote the minority shareholder by 80:20. Cumulative voting would allow the minority shareholder to cast all his/her votes (five times 20 percent) for one board member, thereby allowing his/her chosen candidate to win at least one seat.

allows them to nominate and elect board candidates. On the whole, due to the bilateral nature of shareholder agreements, the nominations and election process lacks transparency. A review of annual reports demonstrates that companies do not disclose their nomination and election processes for the board.<sup>30</sup> On the other hand, a number of companies have professionalized the executive selection processes, and the largest banks and companies do hire executive search and law firms to help identify executive talent and negotiate contracts. In SOEs, the chairman and CEO are generally appointed directly by the Sovereign.

**Board skills:** For the most part, boards appear to have an adequate mix-of-skills, in particular industry experience, as well as expertise in finance and accounting, although specific technical experience such as in risk management and controls, audit, and other technical areas is at times lacking. Because the tenure of board members may last up to six years and as board members may be re-elected indefinitely thereafter, a number of boards appear to suffer from low board turnover and their skill-set may hence not always be up-to-date with recent trends and developments, in particular in technical areas such as risk management. BAM reviews fit and proper criteria for bank owners, board members, and senior managers.

▪ **Board independence:** For one-tiered boards, the law requires that more than half of the board consist of non-executive board members. In practice, 89 percent of the board is constituted of non-executive directors<sup>31</sup>. On the other hand, the corporate governance framework has yet to require or encourage companies to ensure that a minimum number of independent directors serve on the board, or provide a definition of an independent board member,<sup>32</sup> though the MCGC encourages an independent mindset of the board and its directors. Companies are further not required or encouraged to designate and publicly disclose which board members are deemed to be independent. In practice, 50 percent of companies stated that they did not have a single independent director on their board (the other 50 percent averaged between one and two independent directors).<sup>33</sup> However, a number of non-executive board members are recognized for their independent decision-making and expertise, in particular those nominated by institutional investors. It is thus not entirely clear whether boards have a critical mass of non-executive directors capable of exercising independent judgment where there is a potential for conflicts of interests and to: (i) ensure the integrity of financial and non-financial reporting; (ii) review related party transactions; (iii) nominate board

<sup>30</sup> The 2010 CG ROSC Disclosure Survey of companies listed on the BVC; June 2010. This survey only includes the 12 listed companies publishing an annual report.

<sup>31</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010.

<sup>32</sup> For instance, IFC defines an independent director as a person who: “has not been employed by the Company or its Related Parties in the past five years; is not, and is not affiliated with a company that is an advisor or consultant to the Company or its Related Parties; is not affiliated with a significant customer or supplier of the Company or its Related Parties; has no personal service contracts with the Company, its Related Parties, or its senior management; is not affiliated with a non-profit organization that receives significant funding from the Company or its Related Parties; is not employed as an executive of another company where any of the Company's executives serve on that company's board of directors; is not a member of the immediate family of an individual who is, or has been during the past five years, employed by the Company or its Related Parties as an executive officer; is not, nor in the past five years has been, affiliated with or employed by a present or former auditor of the Company or of a Related Party; or is not a controlling person of the Company (or member of a group of individuals and/or entities that collectively exercise effective control over the Company) or such person's brother, sister, parent, grandparent, child, cousin, aunt, uncle, nephew or niece or a spouse, widow, in-law, heir, legatee and successor of any of the foregoing (or any trust or similar arrangement of which any such persons or a combination thereof are the sole beneficiaries) or the executor, administrator or personal representative of any Person described in this sub-paragraph who is deceased or legally incompetent, and for the purposes of this definition, a person shall be deemed to be "affiliated" with a party if such person (i) has a direct or indirect ownership interest in; or (ii) is employed by such party; “Related Party” shall mean, with respect to the Company, any person or entity that controls, is controlled by or is under common control with the Company.

<sup>33</sup> The 2010 CG ROSC Practices Survey of companies listed on the BVC; June 2010.

members and key executives; (iv) set policies on board remuneration; and (v) develop corporate governance policies.<sup>34</sup>

**Key board committees have been established, albeit recently, yet lacks truly independent board members and may hence fail to provide adequate assurance to investors.**

**Most companies do not separate the positions of board**

### Board structures

Selecting an appropriate board structure and establishing board committees can be an effective method of improving board efficiency, allowing the board to better: (i) handle a greater number of issues in a more efficient manner by allowing experts to focus on specific areas and provide recommendations to the board as a whole; (ii) develop subject-specific expertise on the company's operations, for example on financial reporting, risk management and internal controls; and (iii) enhance the objectivity and independence of the board's judgment, insulating it from potential undue influence of managers and controlling shareholders. More specifically:

- **One-tiered vs. two tiered board structures:** The legal framework allows companies to choose between a one- and two-tiered board structures. And while each structure has a unique set of advantages and challenges, both systems are thought to be effective when they are built on four key principles, namely: responsibility, accountability, transparency, and fairness.<sup>35</sup> In practice, 79 percent of companies have adopted a one-tiered board structure.<sup>36</sup>
- **Board committees:** The legal framework allows and MCGC encourages companies to establish board committees, specifically committees on audit and remuneration, and the MCGC further recommends companies to establish a nomination and remuneration committee. In practice, 71 percent of companies have established board committees, with 77 percent of these companies stating that they have set-up audit committees and 40 percent nomination and remuneration committees.<sup>37</sup> Due to a lack of independent board members who serve on audit (and other) committees in practice (only 20 percent of audit committees were chaired by an independent director),<sup>38</sup> these may not, however, provide adequate assurance to investors that their rights will be sufficiently protected.
- **Board chairman – CEO duality:** Most, 54 percent of companies have chosen to combine the position of board chairman and CEO.<sup>39</sup> This is increasingly viewed as a risk to a company's system of checks and balances in that it jeopardizes the board's ability to independently supervise management due to the inherent conflict

<sup>34</sup> Of note is that in absence of a definition of an independent director in Morocco, data on the number of independent directors on the boards of Moroccan companies is likely to be flawed.

<sup>35</sup> Companies with a one-tiered board have a single board of directors consisting of both executive and non-executive directors. The board is responsible for the management of the company and typically delegates the day-to-day management to the CEO. The position of board chairman and CEO may be combined in one and the same person. This board structure can facilitate strong leadership structures and efficient decision-making, however, has an inherent conflict of interest built in to the system with the presence of executive board members tasked with overseeing their own performance. Independent non-executive board members consequently play a crucial role to ensure that executive board members are effectively supervised. Companies with two-tiered boards have a supervisory and management board. The management board is tasked with running the company on a day-to-day basis while the supervisory board is tasked with supervising the management board. Executive board members may not sit on the supervisory board and *vice versa*, and as a consequence the position of board chairman and CEO may not be combined. The advantage of the two-tiered system is a clear separation of roles and responsibilities, but it has been criticized for slow decision-making. Despite these differences, certain principles are applicable regardless of the board structure: the company should seek to have a supervisory structure that is duly elected by shareholders, is sufficiently independent of management and majority shareholders, understands its role, and is empowered to guide and supervise managers.

<sup>36</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010.

<sup>37</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010. Of note is that the World Bank's CG ROSC Practices Survey came to different conclusions, with only 32 percent of respondents cited having an audit committee, 36 percent a nominations and/or remuneration committee (of which not a single one was chaired by an independent director), 28 percent an executive committees, and not a single company had established a corporate governance committee.

<sup>38</sup> The 2010 CG ROSC Practices Survey of companies listed on the BVC; June 2010.

<sup>39</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010.

of interest when combining the role of board chairman and CEO. Indeed, a non-executive chairman is likely to be more inquisitive in his managerial oversight and is ideally placed to counter the (potential) short-term focus of the CEO with an outside and long-term perspective. In the end, the roles of the chairman and the CEO are fundamentally different, requiring different skill-sets: while the CEO runs the business on a day-to-day basis, the chairman runs the board and takes a long-term view to developing the company.

**ⓘ** *The lack of policies on remuneration that tie executive remuneration to the company's long term performance poses a risk to sustainable growth.*

### Executive and non-executive remuneration

The legal framework does differentiate between executive and non-executive remuneration, in-line with good practice. In practice, most companies do not have a remuneration policy on non-executive remuneration in place, though where they exist they are developed by the board's remuneration committee, which is typically composed of non-executive but not independent board members – in-line with good practice.

- **Non-executive remuneration** practices as defined in the legal framework are for the most part in-line with good practice. To begin with, the legal framework calls on non-executive board members to receive board attendance fees, which are approved by the general assembly. Non-executives are further called on to be compensated for additional board duties, such as when chairing the board or when chairing or participating in board committees. This incentivizes non-executive directors to attend board meetings and ensures that non-executive remuneration is not tied to short term performance indicators, for which executive but not non-executive board members should be evaluated on. On the other hand, attendance fees are for the most part considered to be very low and at times non-existent (between 25 and 32 percent of companies do not appear to remunerate their non-executive directors at all; those companies that do typically tie non-executive remuneration to meeting attendance (20 percent) or an annual fee (35 percent)), and are often not considered commensurate with the responsibilities and risks that non-executive board members take on in performance of their duties.

Of note is that, since 1999, directors representing the State in SOEs no longer receive any remuneration

- **Executive remuneration** practices on the other hand fall short of good practice in a number of areas. To begin with, performance objectives are frequently not formalized, making it difficult to evaluate and thus appropriately reward good management. The key issue is that executive remuneration policies do not appear to tie executive remuneration to long-term company performance. Indeed, while most executive compensation packages consist of fixed and variable components, the variable remuneration component typically consists of an annual bonus (or a 13<sup>th</sup> monthly salary) and thus constitutes a short term performance incentive (the CG ROSC survey found that 51 percent of an executives salary package is fixed, while 26 percent are linked to annual dividends). Only one percent of companies offered long-term performance schemes (e.g. shares or restricted share option plans for their executives),<sup>40</sup> although market participants confirmed that an increasing number of companies were implementing such long-term plans. Only 13 percent of companies disclosed their board remuneration on an aggregate basis,<sup>41</sup> though never on an individual basis.<sup>42</sup> And only one company disclosed its remuneration policy.<sup>43</sup>

<sup>40</sup> The 2010 CG ROSC Practices Survey of companies listed on the BVC; June 2010.

<sup>41</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010.

**Board working procedures appear to be well defined, though board meeting frequency appears to be low. The position of company secretary could be augmented in some companies.**

### Board working procedures

Appropriate board policies and procedures helps to better manage board members' time – which is frequently scarce – and supports effective decision-making. In practice, board working procedures in most companies are well defined and carried-out in practice, with room for improvement in the following areas:

- **Meeting frequency:** There is no direct legal requirement for boards to meet a minimum number of times, though the law does indirectly call for six board meetings per year (See Art. 73.4 JSCL). Most companies (79 percent) stated that they held between two and five board meetings per year in 2009,<sup>44</sup> and most companies appear to meet four times per year, although a number are known to only meet twice per year around reporting and budgeting cycles. And while four meetings per year may be appropriate for companies in mature growth cycles or developed industries, the fact that most companies strictly kept to their two or four meetings per year – even during the financial crisis – may indicate that some companies take a formalistic view towards the role of the board.
- **Board agenda, briefing materials, and information flows:** Most companies appear to provide a sufficient notice period, agenda, and board briefing materials to their board members ahead of board meetings. Board minutes are prepared and distributed in practice; however, information flows from the board to management were thought to be in need of improvement in a number of banks and companies.
- **The role of company secretary:** Company boards are required to appoint a board secretary charged with organizing board meetings under the authority of the chairman, and to draft and record minutes. In practice, most companies appear to have board secretaries, though their role is that of a secretarial assistant rather than a professional advisor to the board on corporate governance issues and ensures for appropriate information flows between the principal governing bodies, i.e. general assembly, board, and management. A number of companies are known to outsource the function of company secretary to law firms.

**Board induction training, ongoing professional education, and self-evaluations are the exception and not the norm.**

### Board training and evaluation

The MCGC encourages boards to conduct annual (self) evaluations. Board evaluations have become a mainstay in many of the world's largest companies and: (i) allows the board to assess the value it creates for the organization and the efficiency of its internal functioning; (ii) identifies and overcomes any differences amongst board members; and (iii) leads boards to evaluate the commitment of its members to carrying-out their duties. In practice, a number of boards (59 percent) state that they carry-out self-evaluations, however, only 27 percent of companies stated that they actually evaluate the performance of their non-executive directors,<sup>45</sup> failing to demonstrate the board's own accountability vis-à-vis shareholders, the company, and its employees, and setting an appropriate "tone at the top".

The MCGC also encourages boards to establish induction training and ongoing professional training programs for its board members. In practice, few boards have set-up formalized induction programs for its new directors, which can help them contribute during the early stages of their board tenure, or ongoing professional

<sup>42</sup> World Bank Annual Report Survey, February 2007. This survey measures the importance of the disclosure in the 18 annual reports publicly available on the BVCs' or companies' websites,

<sup>43</sup> The 2010 CG ROSC Disclosure Survey of companies listed on the BVC; June 2010. This survey includes all 12 listed companies that published a full annual report.

<sup>44</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010.

<sup>45</sup> The 2010 CG ROSC Practices Survey of companies listed on the BVC; June 2010.

education for their current board members and senior executives to ensure that their skills stay current. Director training does not appear to be widely accepted and cultural barriers vis-à-vis continuous professional education remain and need to be overcome to further raise awareness of good corporate governance. On the other hand, this attitude may shift in the future with the development of IMA.

Boards are encouraged to hire outside experts, in-line with good practice, and many boards do make use of outside experts to advise them on technical matters.

# Key findings

## Disclosure and transparency

**Financial disclosure is thought to have improved significantly over the years, both in terms of quality and timeliness.**

### Financial disclosure

All companies must produce annual financial statements in accordance with MAS, and listed companies are also required to produce semi-annual statements.

Groups, holding, and publicly traded companies are required to provide consolidated accounts either in accordance with MAS or IFRS, while banks are required to prepare their consolidated accounts in accordance with IFRS only.<sup>46</sup> Given that groups and holding companies may choose between MAS and IFRS, investors are effectively unable to compare financial statements of companies operating in the same industries or sectors, given the important differences that exist between MAS and IFRS. The annual financial statements are required to be audited by two independent external auditors.

In practice, companies comply with these financial reporting requirements and the quality of financial reporting is thought to have improved markedly over the past decade. Market participants assessed financial reporting to be robust and timely.<sup>47</sup> This is partly due to an increased awareness of the importance of financial reporting, as well as improved oversight by the CDVM and BAM, which conduct quantitative and qualitative assessments of financial disclosure.

**Non-financial disclosure, on the other hand, remains largely inadequate.**

### Non-financial disclosure

The legal and regulatory framework requires and the MCGC encourages companies to disclose relevant non-financial information as defined in the OECD Principles (see Table 2), in particular with respect to corporate governance structures and policies – e.g. on board composition, executive remuneration, and committee structures – as well as control structures – e.g. risk management, and internal controls and audit processes.

In addition, companies are required to provide a qualitative description of the company's financial health in the form of a management discussion and analysis (*rapport de gestion*), which must include, *inter alia*, a description of the company's activities, key transactions, and challenges over the past year, as well as current financial position, risks, and future perspectives. This document is only disclosed to shareholder in GMS.

In practice and as can be deduced from Table 2 below, non-financial disclosure remains largely underdeveloped.

<sup>46</sup> IFRS are not translated into Arabic; instead, companies either use the original English version as published by the International Accounting Standards Board (IASB) or the official French version developed by the French Association of certified public accountants (*l'Ordre des Experts-Comptables*). This ensures that the IFRS used by the accounting profession are up-to-date.

<sup>47</sup> Please note is that this Corporate Governance ROSC was unable to review financial statements. The government of Morocco may wish to update the Accounting and Auditing ROSC, which dates from 2002, which will be able to provide more detailed guidance on accounting, auditing and financial disclosure practices.

1. Company objectives	!	<b>The corporate governance framework</b> requires companies to disclose their objectives, though it does not differentiate between commercial and non-commercial objectives.
	!	<b>In practice</b> , companies do disclose their commercial but not non-commercial objectives in their articles of association.
2. Major share ownership and voting rights	✓	<b>The corporate governance framework</b> requires shareholders to disclose their ownership to the regulatory authorities when crossing ownership thresholds (five percent, ten percent, etc.). Also, the CDVM makes this information available within 48 hours.
	!	<b>In practice</b> , ownership structures and arrangements are publicly available. However, only the direct ownership is disclosed. Indirect or beneficial ownership structures are not made public.
3. Remuneration policies and material information on board members	✓	<b>The corporate governance framework</b> does encourage but not require companies to disclose remuneration policies and information on directors.
	☒	<b>In practice</b> , only 13 percent of companies disclosed the remuneration policy or actual remuneration for board members. <sup>48</sup> None of the 18 companies publicly disclosing their annual report discloses information about their independent board members or the criteria it uses to define independence.
4. Related party transactions	✓	<b>The corporate governance framework</b> does require companies to disclose related party transactions to shareholders so that these may approve them. Note also that both MAS and IFRS require companies to disclose related party transactions to shareholders in their financial statements.
	!	<b>In practice</b> , only companies affiliated to international groups and a few local Moroccan companies do disclose their related party transactions to shareholders.
5. Foreseeable risk factors	✓	<b>The corporate governance framework</b> encourages but does not require companies to disclose their material foreseeable risk factors.
	☒	<b>In practice</b> , Less than a third of companies publishing their annual reports disclose some information on their risk management policies; less than 30 percent publicly disclose material foreseeable risk factors in their annual report. <sup>49</sup>
6. Stakeholder and employee issues	✓	<b>The corporate governance framework</b> encourages but does not require companies to disclose their policies on stakeholders and employees.
	!	<b>In practice</b> , some companies disclose their policies on employee issues, though only a few disclose on other stakeholders issues.
7. Corporate Governance structures and policies	✓	<b>The corporate governance framework</b> encourages but does not require companies to disclose their corporate governance structures and policies.
	☒	<b>In practice</b> , while 61 percent of companies declared that they included corporate governance sections in their annual report, <sup>50</sup> most of these corporate governance sections failed to identify or discuss: (i) independent directors; (ii) board-level committees; (iii) board attendance; (iv) the principle role of the board; and (v) risk, control, and audit structures.

Legend: ✓: Implemented !: Partially Implemented ☒: Not implemented

<sup>48</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010. Of note is that none of the annual reports publicly available on the internet contained a section in which the company's remuneration policy or link between remuneration and performance was presented.

<sup>49</sup> The 2010 CG ROSC Disclosure Survey of companies listed on the BVC; June 2010. This survey only includes the 12 listed companies publishing an annual report.

<sup>50</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010. Of note is that the 2010 CG ROSC Disclosure Survey found that 81 percent of companies disclosed their governance structure, but less than 20 percent their governance policies in the annual report. This survey only includes the 12 listed companies publishing an annual report.

**The Accounting and auditing standard setting process is generally in-line with good practice, though Morocco should move towards the adoption of IFRS, in line with the EU.**

**Financial and non-financial information is not easily accessible by investors.**

### The accounting and audit standard setting process

The national accounting council (*Conseil National de la Comptabilité or CNC*) is responsible for developing and approving Moroccan accounting Standards (MAS). The Moroccan accounting standard-setting process does allow for due process and the Moroccan Institute of Certified Public Accountants (*l'Ordre des Experts Comptables du Maroc* or OEC),<sup>51</sup> representing the accounting and audit professions, supports the CNC in developing MAS and their interpretations. The profession by its own account thus feels involved and heard in the accounting standard setting process.

With respect to the Moroccan Standards on Auditing (MSA), a manual of professional standards was developed by OEC and is patterned, with a few exceptions, on International Standards on Auditing (ISA) as developed by the International Federation of Accountants (IFAC).

### Ease of access to company information

A comprehensive set of company information is available to shareholders through two main channels: (i) the companies themselves keep corporate records at their headquarters, and shareholders are able to access this information for a reasonable fee; and (ii) the Commercial Registry, which similarly makes corporate information available for a fee up to \$25, though this information is not always kept up-to-date and the Registry does not have an appropriate IT system to facilitate record keeping and ease of access. Neither of these channels, however, allows shareholders or investors (in particular foreign investors) to access information in a convenient manner. The Journal of Finance also publishes the full set of semi- and annual financial statements of all companies, however, is unavailable online. And while 84 percent companies do have websites,<sup>52</sup> not all have pages dedicated to corporate governance or disclose both financial and non-financial information.

A great majority of companies, 74 percent, state that they have a dedicated individual responsible for investor relations; however, few have launched investor relations websites or produce annual reports of comparable quality to those published by European or U.S. companies, which makes information difficult to access by potential investors.

An advanced electronic filing system that requires companies to upload information to the public domain has not as of yet been developed, however, of note is that the BVC does publish an impressive amount of financial information on each and every company, if only in summary form.

<sup>51</sup> Of note is that the OEC is a full member of the International Federation of Accountants (IFAC). OEC counts approximately 360 external auditors as their members. These work for approximately 100 audit firms which are operational in Morocco today.

<sup>52</sup> The 2010 CG ROSC Disclosure Survey of companies listed on the BVC; June 2010. This survey only includes the 12 listed companies publishing an annual report.

# Key findings

## Risk, controls, and audit processes

**¶** *The majority of banks and an important number of companies are thought to have robust risk management and internal control procedures in place.*

### Risk management and internal controls

Bank regulation requires banks (listed and non-listed) and the MCGC encourages companies to put in place appropriate risk management and internal control structures, policies, and procedures. Company boards are even called on by law to establish robust internal control systems to allow them to effectively oversee management.

In practice, the majority of banks appear to have laid the foundation for robust risk management frameworks, in particular given that most bank operations are not overtly complex and that banks are not exposed to complex financial instruments. Most banks cited having a dedicated individual focusing on risk management, although that individual, frequently one of the deputy CEOs, often combined this function with other duties. Most bank boards, moreover, were said to have a minimum number of board members relatively experienced in and knowledgeable on risk management issues to properly guide and oversee management in their efforts to build effective risk management and internal control systems. On the other hand, not all banks had sufficient depth of experienced staff with the necessary expertise to implement robust enterprise wide risk management systems. Just under half (48 percent) of companies in turn had established risk management functions with an average of two staff.<sup>53</sup>

With respect to internal controls, the large majority of companies (89 percent) stated that they had a system of internal controls in place.<sup>54</sup> Of note is that most companies had organized their internal control functions into a single department, with a head controller who is responsible for the internal control framework, and not as a series of control policies, processes, and systems in which the responsibility for controls is spread across the entire organization and embedded in the corporate culture.

Nonetheless, in banks and some companies, internal controls were thought to be relatively robust in practice, as confirmed by management letters issued by the external auditors. Specific to banks, only 13.3 percent had board-level risk committees; and although 86.7 percent of banks stated that they had established management level risk functions, only 12.5 percent cited having any reporting line to the board.

In family-owned companies (except some of the largest ones) on the other hand, a number of internal control weaknesses continue to exist, for example, a lack of formalized policies and processes, absence of IT systems, and related party transactions between family members and the company. The key issue in this respect is the heavy cost for companies to implement good practices.

**¶** *Most banks have established compliance functions, if only recently.*

### The compliance function

The legal framework calls on the board to establish a compliance function to ensure that management complies with relevant laws and regulations, as well as internal policies, procedures, and processes. Further, bank regulation requires and the MCGC

<sup>53</sup> The 2010 CG ROSC Practices Survey of companies listed on the BVC; June 2010.

<sup>54</sup> A Survey of Corporate Governance Practice of Companies Listed on the BVC, CDVM, February 2010. Of note is that the 2010 CG ROSC Practices Survey found only 56 percent of companies to have established formal internal control functions

encourages companies to establish a compliance function.

In practice, most banks have established compliance functions, though these are not always sufficiently resourced and staffed; few companies (32 percent) have established compliance functions in practice. Of further note is that a number of companies combine the compliance and internal audit functions, against good practice.

**♀** *Most banks appear to have an independent, if nascent internal audit function, while the internal audit function in companies lacks independence, reporting to the CEO and not the board's audit committee.*

### The internal audit

Banks are required and companies encouraged establishing an independent internal audit function; in practice, 89 percent of companies have established such function.<sup>55</sup> The internal audit function in banks is required and in companies encouraged to report directly to the board or its audit committee, thus ensuring for an independent reporting line away from management to the board. On the other hand, there is little guidance on other safeguards to ensure for an independent internal audit function, for example, the need to have the audit committee approve the appointment, performance, and remuneration of the internal auditor.

The regulatory framework for banks does specify the main role and scope of the internal audit in-line with good practice, and importantly calls on the internal audit function to be sufficiently resourced to carry-out its duties. Of particular note is that the bank's internal auditors are called on to audit the corporate governance and risk management structures – again in-line with good practice. As a consequence, the internal audit function in banks (especially listed ones) appears to be relatively advanced – if still nascent in a number of banks. Internal audit functions do not appear to be sufficiently resourced in all companies with sufficiently trained internal audit staff that carry-out their work on a risk-based manner, and a number of banks continue to focus resources on the front office to increase their market share in a growing market. At times, internal audit staff appears to be relatively inexperienced and some have questioned whether the position is sufficiently senior to bring control deficiencies to the board's attention against the will of the CEO.

The MCGC in turn does not provide guidance on these issues and is effectively silent on the role, scope, and independence of the internal audit function. In companies the internal audit function thus frequently reports exclusively to the CEO or CFO, at times without any reporting to the board or its audit committee and effectively undermining its independence (only 47 percent of companies stated that the internal auditor reports to the audit committee and 18 percent to the board).<sup>56</sup> In many companies, the head of internal audit reports directly to the chairman (56 percent), which may pose a conflict when the chairman is also the CEO. Further jeopardizing the independence of the internal auditor is the fact that either the CEO or senior management select the head of internal audit (67 percent) or set his or her compensation (73 percent), and that a number of companies combine internal audit and control functions in the same department (74 percent). Of further note is that most companies do not appear to provide the internal audit function with sufficient resources (the average internal audit department is staffed with two internal auditors). Finally, the internal audit function is often relatively nascent and hence inexperienced. The internal audit function is practically non-existent in non-listed joint stock companies.

Morocco is only one of two countries on the African continent to have a local chapter of the Institute of Internal Auditors that has been formally designated to administer

<sup>55</sup> A Survey of Corporate Governance Practice of companies Listed on the BVC, CDVM, February 2010

<sup>56</sup> The 2010 CG ROSC Practices Survey of companies listed on the BVC; June 2010.

**🔑** Companies are required to undergo an independent external audit, which on the whole is thought to be robust and independent.

the official exam to become a certified internal auditor.<sup>57</sup> This provides a unique opportunity for banks and companies to ensure that their internal audit staff obtains a formal certification from the Institute of Internal Auditors.

### The external audit

All banks, companies, joint stock companies, and limited liability companies with assets over DAM 50 mil. are required to undergo an external audit. The legal and regulatory framework further specifies that each bank and publicly listed company is to have two external audit firms conduct the external audit.<sup>58</sup> More specifically:

- **Nomination and approval:** The law calls on the external auditor to be approved by the general assembly upon a recommendation by the board, and the MCGC recommends that the board's audit committee organize the selection process, renewal, and compensation of the external auditors, in-line with good practice. In reality, the audit committee of four percent of companies plays a role in nominating the external auditor, who is then elected by the general assembly.<sup>59</sup>
- **Independence:** With respect to the independence of the external auditor, the legal framework is relatively strict and has put a number of provisions in place to ensure for auditor independence. To begin with, the external auditor must be approved by the general assembly upon a proposal by the board, and the MCGC encourages audit committees to carry-out the tender process to ensure for a competitive and independent selection process (though the audit committee is not required to be independent). Also, there is a prohibition for external auditors to provide non-audit services to their audit clients (though the wording is relatively ambiguous and hence subject to interpretation). The legal framework further calls for a cooling-off period of five years, i.e. an external auditor may not serve on the board or as a manager of a company within five years of completing the audit. Finally, the legal framework specifies that the external auditor may not have material ties to the companies they are auditing.<sup>60</sup> These provisions are much in-line with good practice. On the other hand, the legal and regulatory framework does not require the lead audit partner to be rotated on a periodic basis, though audit firms auditing banks (but not companies) are limited to two consecutive mandates of three years. Audit firms are known to have long-term audit relationships with their clients, often exceeding ten and even 15 years, jeopardizing the independence of the external audit in absence of a formal policy on audit partner rotation. The MCGC however, recommends that the board proposes the rotation of the external auditor after two successive terms in order to strengthen the independence vis-à-vis the audit client<sup>61</sup>. It was not possible to estimate whether this rotation effectively occurs in practice, given that the MCGC was only recently launched. .

In practice, the external audit profession – in particular the largest international and domestic audit firms are publicly recognized for the quality of their work and

<sup>57</sup> The Institute of Internal Auditors is recognized the world over as the international organization representing the internal audit profession. See [www.theiia.org](http://www.theiia.org). Of note is that the local chapter of the Institute has some 300 members, of which 30 have been certified and another 70 are in the process of finalizing their certification.

<sup>58</sup> Both of these external auditors are required to jointly conduct a single audit and not conduct two separate audits as is the case in other countries, such as Tunisia.

<sup>59</sup> The 2010 CG ROSC Practices Survey of companies listed on the BVC; June 2010.

<sup>60</sup> The external auditor may not be the founder of the company, main supplier or customer, or a board member or senior manager of the company (or a family member up to the 2<sup>nd</sup> degree of kinship), and the external auditor may further not carry out any activities that may jeopardize his or her independence, in particular for carrying-out paid services.

<sup>61</sup> Many argue that the requirement to rotate an entire firm, rather than the lead audit partner, actually runs counter to good corporate governance in that companies lose their auditor just as that auditor is able to truly familiarize itself with the company's operations; more importantly, it often requires companies in emerging markets to change the only qualified audit firm able to properly carry-out bank audits, which are generally thought to be more complex than audits of companies in the real sector.

competency of their staff – and both the profession and OEC enjoy positive reputations among market participants.

The OEC is currently in the process of launching an ethics code for the profession, modeled after IFAC's Code of Ethics for Professional Accountants as issued by the International Ethics Standards Board for Accountants (IESBA).

**♀** *All banks and a great number of companies have established audit committees, though these remain nascent and as such untested.*

### **The role of the audit committee in tying it all together**

According to international good practice, the audit committee's primary responsibilities are to: (i) review and report to the board the most critical accounting policies which are the basis for financial reports; (ii) ensure that the systems of internal controls are robust; (iii) oversee the company's internal audit activities; (iv) ensure for an appropriate compliance function with external laws and regulations, as well as internal policies and processes; and (v) oversee the overall relationship with the external auditor. The audit committee thus plays a central role in ensuring that the overall system of internal and external controls works smoothly and that the individual control and audit entities are communicating and cooperating with one another.

Banks are required and companies encouraged to establish audit committees, and most have done so in practice – if only recently. And while good practice calls on the audit committee to exercise judgment in its work independent from management and major shareholders, only 20 percent of audit committees are chaired and not a single wholly composed of independent directors.

# Key findings

## Shareholder rights

**♀** A number of basic shareholder rights are contained in the legal and regulatory framework, properly enforced, and complied with in practice, though shareholder participation can be limited.

### Basic shareholder rights

A number of basic shareholder rights are contained in the legal framework, e.g. the ability to participate in the GMS and elect or dismiss directors. As Table 3 demonstrates, basic shareholder rights are provided for by law.

Table 3: A legal review of basic shareholder rights according to Principle II.A.		
1. Secure methods of ownership registration	✓	<b>The corporate governance framework</b> does require custodians to safeguard customers' assets in order to protect the rights of shareholders.
	✓	<b>In practice</b> , shareholder rights are protected when assets are held by custodians.
2. Convey or transfer share	✓	<b>The corporate governance framework</b> forbids listed companies to restrict the transfer of shares. Non listed companies are allowed to specify some restrictions.
	✓	<b>In practice</b> , shareholders are able to freely convey and transfer their shares; restrictions may apply in unlisted companies insofar as they are specified in the articles of association or in a shareholder agreement.
	!	<b>The corporate governance framework</b> provides for the legal and financial independence of the central depository (Maroclear) but the structure is not designed to provide an entire independence. The corporate governance framework also does require clearing and settlement to take place in DVP (delivery versus payment).
	!	<b>In practice</b> , all listed securities on the BVC are dematerialized and deposited with Maroclear which appears to be adequately funded, staffed, though not entirely independent, as part of its capital is held by issuers and intermediaries. <sup>62</sup> Settlement is conducted DVP, at T+3.
3. Information rights	✓	<b>The corporate governance framework</b> does require that shareholders obtain copies of the articles of association, charter, and by-laws, as well as financial statements and general assembly minutes.
	!	<b>In practice</b> , shareholders obtain copies of the above documents. However, financial statements while available at the company headquarter are not sent with the GMS notice, as good practice recommends.

<sup>62</sup> To demonstrate its commitment to good corporate governance, Maroclear should itself implement the MCGC.

4. Participate and vote in the GSM	!	<b>The corporate governance framework</b> provides for shareholders to participate in the general assembly. The law does not expressly state that they are also allowed to vote and allows companies to limit shareholders attendance by barring shareholders holding less than ten shares from participating in the general assembly.
	!	<b>In practice</b> , shareholders are generally allowed to participate and vote in the general assembly, although this is not expressly stated in law (though widespread in practice). More importantly some companies limit shareholder attendance by barring shareholders holding less than ten shares from participating in the general assembly.
5. Elect/remove board members	✓	<b>The corporate governance framework</b> does require shareholders to both elect and remove board members during the GMS.
	✓	<b>In practice</b> , shareholders both elect and remove directors during the GMS.
6. Share in profits of the corporation	✓	<b>The corporate governance framework</b> does require shareholders to be treated equally vis-à-vis dividends.
	✓	<b>In practice</b> , shareholders of the same class are treated equally vis-à-vis dividends.

**Legend:** ✓: Implemented !: Partially Implemented ☒: Not implemented

In practice, these basic shareholder rights appear to be complied with by the majority of companies.

#### Specific shareholder rights: participating in the general assembly

Shareholders do have the right to participate and vote in the general assembly, although as previously mentioned, the company can limit participation to shareholders holding up to ten shares. Shareholders representing five percent of capital may add items to the general assembly agenda. Shareholders do not have an explicit right to submit written or directly ask questions to the board, which the board in turn would be required to answer, although the MCGC does encourage this practice. Of note in this respect is that management and not the board is legally required to attend the general assembly, against good practice, which calls for both the board and management to “face” the company’s owners. The legal framework on the other hand limits questions directed to the board by shareholders at the general assembly unless the questions appear on the agenda, which could infer a right to pose questions when these fall under a particular agenda item. Shareholders are able to vote in person or in absentia;<sup>63</sup> postal and (implicitly) electronic voting are allowed under the law if specified in the articles of association, though not practiced.

Shareholders are generally furnished with sufficient information concerning the date, location, and agenda, as well as all other relevant information for the general assembly, and this information is generally made available at the company’s premises. There is a notice period of 15 days for companies, which many consider insufficient for institutional or foreign shareholders to effectively participate in the general

**Shareholders do have the right to participate in the general assembly meeting, though the company may require a minimum threshold of shares to attend, against good practice.**

**Shareholders generally receive timely and sufficient information prior to the GMS.**

**Shares within any series of a class are treated equally and investors are able to obtain information about the rights attached to shares**

<sup>63</sup> Of note is that only the following persons may serve as proxy: another shareholder, a spouse, a parent, or child; or, in publicly traded companies, a company the purpose of which is the management of securities portfolios.

assembly. Moreover, there is no requirement for custodians to pass on relevant information to their clients, which means that foreign shareholders may not be informed of matters related to the general assembly, unless these have specific agreements with their global custodian banks.

Of note is that a company can offer double voting rights to owners holding their shares for more than two years (though the double voting rights are lost when the shares in question are transferred to a new owner). These must, however, be disclosed in the articles of association. Preferred shares may have privileges in terms of voting, receive a fixed percentage of dividends to be paid before other dividends, or have priority in liquidation. In practice, companies that issue shares with double voting rights are the exception and not the rule. Investors are able to obtain information about the rights attached to all series and classes of shares (although only at the commercial registry or the company itself, seldom online).

**♀** *Boards do not generally ensure for a formal and transparent director nomination and election processes.*

### **Specific shareholder rights: Nominating and electing board members**

The corporate governance framework requires companies to provide shareholders with detailed copies of directors' *curricula vitae*, and does encourage boards and their nomination committees to oversee board nomination processes. Shareholders holding five percent or more of shares are able to submit board nominations. On the other hand, this process is in practice not made transparent by board nomination committees, and shareholders are thus not assured that the board properly reviews proposals in a strategic manner, if at all, for example, with a view towards creating an ideal mix-of-skills. The corporate governance framework further does not require or encourage independent board members to play a role in the director nomination process. In practice, while minority shareholders are able to formally elect board members during the general assembly, the board nomination and election processes are typically controlled by the majority owner and far from formal and transparent. Cumulative voting is not encouraged or practiced, and there is no investor association to help coordinate shareholders voting.<sup>64</sup>

**♀** *Shareholders are generally able to share in the profits of the company.*

### **Specific shareholder rights: sharing in the company's profits**

Shareholders are able to share in the profits of the company through declared dividends, based on a proposal from the board and a valid general assembly resolution. In practice, boards do propose and shareholders approve dividends, and dividends are distributed to shareholders by companies through Maroclear. In-line with good practice, companies are encouraged to develop and disclose dividend policies, though few appear to do so in practice.

**♀** *Shareholders generally do have the right to participate in and be sufficiently informed on decisions concerning fundamental corporate changes.*

### **Ex ante minority shareholder protection mechanisms**

The legal framework provides for *ex ante* protective measures, specifically:

- *Qualified, two-thirds majority voting on key issues through the extraordinary general assembly.* In-line with good practice, a two-thirds majority vote of attending shareholders is required to modify the articles of association, waive pre-emptive rights, change company objectives, and approve extraordinary transactions. Of note is that extraordinary transaction only require two-thirds approval by the general assembly if they lead to a change in the articles of association; otherwise, the other extraordinary transactions are not explicitly

<sup>64</sup> Cumulative voting allows minority shareholders to cast all their votes for one candidate. Suppose that a publicly traded company has two shareholders, one holding 80 percent of the votes and another with 20 percent. Five directors need to be elected. Without a cumulative voting rule, each shareholder must vote separately for each director. The majority shareholder will get all five seats, as s/he will always outvote the minority shareholder by 80:20. Cumulative voting would allow the minority shareholder to cast all his/her votes (five times 20 percent) for one board member, thereby allowing his/her chosen candidate to win that seat.

subjected to any shareholder vote.

- *To conduct specialized audits.* Shareholders holding at least ten percent of the company's shares are able to call an extraordinary general assembly and also call for an extraordinary audit.

On the other hand, withdrawal rights for shareholders who for example voted against a resolution adopted at a general assembly on extraordinary transactions are not foreseen by the legal and regulatory framework.

**🔑** Court enforcement remains weak and shareholder complaints to the courts are the best means to hold boards accountable.

### **Ex post minority shareholder protection mechanisms**

Shareholders, in particular minorities, are protected by law from potential abusive actions by controlling shareholders. *More specifically, any shareholder* may file a direct or derivative suit against the company's directors and managers for compensation of any loss. Director duties are defined, though only in the broadest sense and scattered in different parts of the legal and regulatory framework, though the MCGC effectively groups and defines these duties.

In practice, minority shareholders are known to file suits against directors and managers. Importantly, a number of minority shareholders have won their cases, although most market participants confirm that the court system is still considered somewhat controversial and generally inefficient in terms of length and cost.

In addition, whenever a person acquires, directly or indirectly 40 percent of the voting rights of a listed company, said person is required to make an offer to all shareholders, providing minority shareholders with an opportunity to withdraw.

**🔑** Insider trading and market manipulation are recognized diminishing issues by most market participants.

### **Protecting shareholders from insider trading**

The Moroccan government, in particular the CDVM, has taken strong measures against insider dealing and market manipulation. The terms insider, inside information, material information, insider dealing, related groups, and price manipulation, have been defined and tightened in amendments to the regulatory framework, mostly in-line with good practice. The CDVM has further developed an insiders' database of directors and executives,<sup>65</sup> and has direct access to the BVC's electronic surveillance system. Insiders report close supervision. Blackout periods also exist for insiders, for example during the period in which the financial reports are being prepared. On the other hand, trades by insiders do not need to be disclosed.

On the whole, insider trading and market manipulation is said to be rare and punished and thus do not constitute a major threat to the market.

<sup>65</sup> The information entered in the database by the CDVM is provided by the companies themselves.

**🔑** *The legal and regulatory framework regarding related party transactions has been strengthened, though abusive related party transactions are thought to be an ongoing investor concern.*

### Protecting shareholders from related party transactions

The legal framework provides additional protections against related party transactions. All transactions (unless carried-out during the ordinary course of business) conducted by board members, managers, and shareholders owning directly or indirectly five percent of the capital or voting rights are to be approved by the board and are then submitted to the general assembly for final approval. This includes indirect interests as well, although it is not expressly clear whether transactions conducted by the relatives of the related parties are captured. Of note is that the MCGC contains a number of specific good practice guidelines that underline the board's responsibility to properly manage related party transactions. There is no requirement for extraordinary (large) related party transactions to be submitted for immediate shareholder approval through an extraordinary general assembly.

Conflicted directors must notify the board, have their conflict recorded in the meeting minutes, and abstain from voting, in-line with good practice.

Finally, companies are required to fully disclose related-party transactions in their financial statements, both according to the MAS and IFRS, as can be seen in Table 4. However, Morocco fares poorly vis-à-vis other MENA and OECD countries in terms of the extent of director liability and in terms of the ease of shareholder suits with respect to related party transactions.

**Table 4: Doing Business Index on protecting investors 2011**

	Morocco	MENA	OECD
Extent of disclosure index (0-10)	7	6.3	6.0
Extent of director liability index (0-10)	2	4.6	5.2
Ease of shareholder suits index (0-10)	1	3.4	6.8
Strength of investor protection index (0-10)	3.3	4.8	6.0

Source: Doing Business. [www.doingbusiness.org](http://www.doingbusiness.org)

# Key findings

## Commitment and enforcement

**♀** *Important legal reforms have been achieved, while keeping differences in company size and sectors in mind. On the other hand, the MCGC is not yet widely followed in practice.*

**♀** *Commitment to build independent and effective enforcement institutions*

### The legal and regulatory framework

The government has introduced a number of legal and regulatory reforms to improve the corporate governance framework since the first CG ROSC was carried-out in 2003. Overall, the government appears to have weighed the costs and benefits of reforms, and their effects on company performance. For example, while banks (given their unique public interest function) are required to follow most of the recommendations in the MCGC through two BAM circulars on corporate governance and internal controls, companies are merely encouraged to follow the MCGC, which is voluntary. As such, the regulatory authorities have refrained from launching a regulation that would have imposed overtly stringent requirements on companies, such as mandating companies to adopt specific governance structures that might be too costly for them to implement vis-à-vis their income, and instead is working in close partnership with the private sector to build the business case for implementing good corporate governance. On the other hand, except banks, few if any companies today are fully applying the MCGC.

The Moroccan government is clearly committed to building strong, vigilant, and fair institutions responsible for the supervision of the financial and capital markets.

- ***The CDVM and capital market enforcement:*** Since the last CG ROSC, the CDVM's authority has been strengthened through amendments to the securities markets law and general statute of the CDVM. Today, the CDVM has the authority to effectively monitor the capital market and enforce laws and regulations vis-a-vis companies and financial intermediaries, including Maroclear, the 19 brokerages, and various other market operators. Licensing procedures for financial intermediaries and their staff have been put in place and the relevant IOSCO Principles are said to have been implemented; however, it is the MoF and not the CDVM that has the authority to license and suspend financial intermediaries. The CDVM's board has been expanded to nine members, including three government and one BAM representative (though no independent members), and management is being increasingly held accountable for its supervision over issuers and financial intermediaries.<sup>66</sup>

The CDVM is said to be sufficient resourced and staffed, with staff salaries largely commensurate with those offered by the private sector.

Under the revised securities markets law, the CDVM is financially "autonomous" from issuers and financial intermediaries, as well as the executive government. The chairman and CEO are appointed by and serve at the discretion of the Sovereign.

Of note is that the BVC, a self-regulatory body under the oversight of the CDVM, is itself implementing good corporate governance practices and has recently separated board and management duties, established board committees, including committees on audit, strategy, and remuneration and nomination, report according to IFRS and have adopted a company-wide code of ethics. The BVC, on the other hand, does not have independent board members and further fails to comply or

<sup>66</sup> For further information, see also Morocco: Financial System Stability Assessment – Update; October 14, 2008.

explain its adherence to the MCGC.

- **The BAM and banking supervision:** BAM exercises banking supervision on the basis of the provisions of the banking law, which was amended in 2006. Banks are required to follow a regulation on corporate governance, as well as several regulations related to risk management, internal control and audit procedures, as well as compliance, which are stringently enforced by BAM. Supervisory staff is considered competent. Staff has developed proven expertise in corporate governance, both relating to regional and international financial institutions. For new issues related to governance, it has shown adaptability and anticipation. Staff turnover in the supervisory department is relatively low, and BAM salaries are comparable to those offered by the private sector.

Banking system regulation and supervision is compliant or largely compliant with 21 out of the 25 Basel Core Principles (BCP) principles and represents a substantial strengthening since the 2002 FSAP Assessment.<sup>67</sup> Banking supervision reports are now published annually. Since June 2007, BAM has required banks to comply with Basel II prudential requirements. Overall, the cooperation between the banks and BAM is positive at all levels. Indeed, while the Governor of BAM formally meets bi-annually with bank chairmen and CEOs to discuss key strategic issues with regard to the banking system, there are ongoing working-level meetings between technical bank and supervisory staff to discuss new or amendments to existing laws and regulations, including those related to corporate governance.

Under the revised banking law, BAM and its Governor are operationally independent in making decisions on banking supervision. On the other hand, the Governor is appointed by and serves at the discretion of the Sovereign. There is no reporting to parliament or another independent body by the Governor. In practice the Governor is widely seen to be independent by stakeholders.

- **The court and judicial enforcement:** Market participants confirm that Morocco's court system remains inefficient in terms of time and costs, and cite the issue of legal uncertainty with respect to rulings (see also Table 5 below, which demonstrates gains achieved vis-à-vis other MENA countries and gaps between OECD countries). The judicial system is thought to lack transparency and judges do not publish cases. Of note is that Morocco is currently undergoing a review of and reform process for its judicial system, though these reforms are expected to take some time to bear fruit. In the meantime, alternative dispute resolution is widely considered the only viable alternative to the court system. Mediation, while it exists, is not often resorted to. A new professional order of "court mediators" is expected to be created shortly to attempt to settle a number of judicial cases "out-of-court".

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<sup>67</sup> Morocco: Financial System Stability Assessment – Update; October 14, 2008.

**Table 5: Doing Business Index on enforcing contracts and resolving commercial disputes 2011**

	Morocco	MENA	OECD
<b>Procedures (number)</b>	40	43.9	31.2
<b>Time (days)</b>	615	664.1	517.5
<b>Cost ( percent of claim)</b>	25.2	23.6	19.2

Note that the Doing Business data provides information on the time, cost, and procedures to enforce a simple/basic commercial dispute. Corporate governance-related judicial litigation is usually more complex and can suffer more delays.

- **The OEC and enforcement of MSA:** Morocco has adopted a strict legal and regulatory framework to ensure for compliance with MSA. The OEC operates as a self-regulatory organization (SRO) and oversees the auditing profession. As such, it has the authority to sanction external auditors that do not comply with MSA, for example, through warning letters, fines and suspension. The OEC has taken important steps to put in place a robust assurance and control framework, which is based on a peer review system, though this system only ensures that each audit firm is peer reviewed once every five years. Sanctions appear to have been issued in the past; however, these sanctions are not published by the OEC in its annual report.

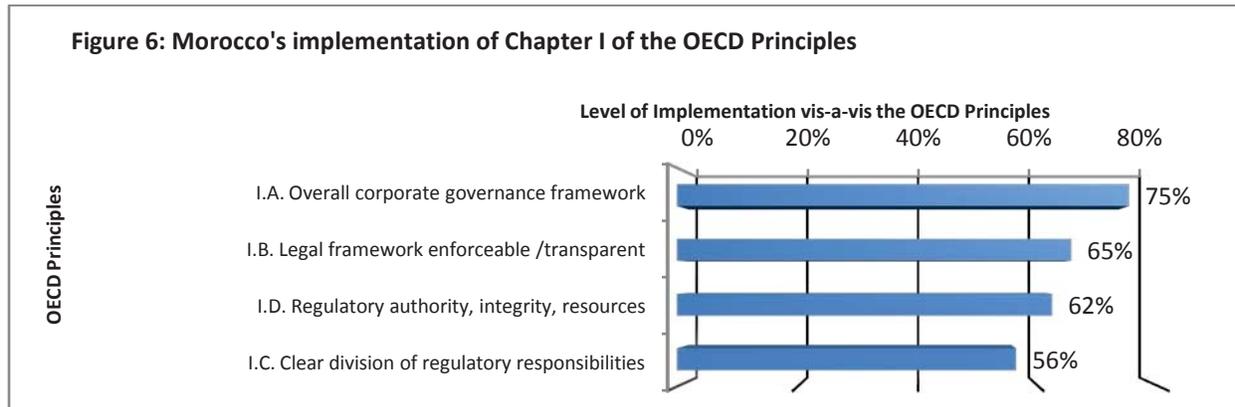
Of note is that there is no institution that provides independent oversight over the profession, thereby providing additional assurance to the markets that the external audit process is carried out in a robust, competent, and independent manner.

BAM does conduct a quantitative and qualitative assessment to verify that auditors have the means to audit banks. In this respect, it has adopted fit and proper criteria. Overall, the cooperation between enforcement entities supervising different segments of the financial and capital markets has been strengthened. Of particular note is the creation of a Coordination Commission between the BAM, CDVM and DAPS, which meets once per year to exchange information and discuss the overall health of the financial and capital markets.

# Assessment and Recommendations

## Chapter I of the OECD Principles: Ensuring The Basis for an Effective Corporate Governance Framework

The OECD principles, and by extension the following recommendations, focus on publicly traded companies. Because corporate governance is relevant to companies beyond those that are listed, a number of the recommendations below are also applicable to large non-listed companies, state-owned enterprises, and financial institutions. The government of Morocco has legitimate interest in ensuring that good corporate governance is also applied in those companies. It should consider raising awareness of and building the business case for corporate governance and encourage the application of the recommendation beyond publicly traded companies.



As can be seen from Figure 6, Morocco has on average *partially implemented* Chapter I of the OECD Principles,<sup>68</sup> which calls for the corporate governance framework to promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory, and enforcement authorities. To further close the gap between Morocco’s corporate governance framework and Chapter I of the OECD Principles, the Government of Morocco (GoM) should consider the following reforms:

<b>Short term</b>	<ul style="list-style-type: none"> <li>The GoM should continue its efforts to finalize its corporate governance code for state-owned enterprises. It may also wish to request a more detailed analysis of corporate governance issues in the SOE sector.</li> </ul>
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<sup>68</sup> A Principle is deemed to be **‘fully implemented’** when 95 percent or more of a Principle’s Essential Criteria are met (see the Annex for the list of Essential Criteria, as well as the World Bank’s assessment methodology of the Essential Criteria). A Principle is **‘broadly implemented’** where one or more of the applicable Essential Criteria are less than fully implemented (75 – 94.9 percent) in all material respects. A Principle is **‘partially implemented’** when 35 to 74.9 percent of a Principle’s essential criteria have been met. A **‘not implemented’** assessment likely is appropriate where major shortcomings exist, i.e. less than 35 percent of a Principle’s Essential Criteria have been implemented. A **‘not applicable’** (n/a) assessment is appropriate where an OECD Principle (or one of the Essential Criteria) does not apply due to structural, legal or institutional features.

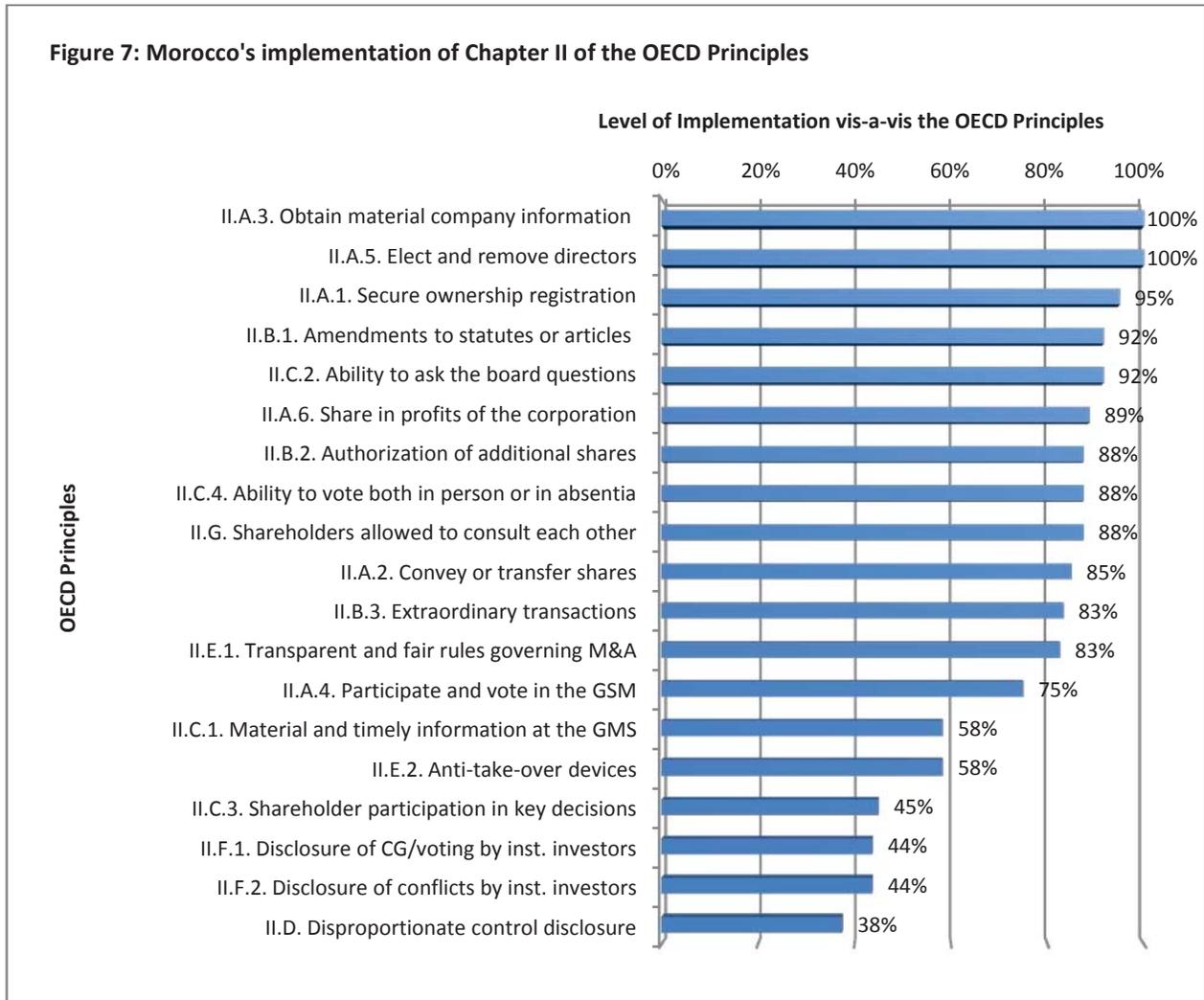
Medium term	<ul style="list-style-type: none"> <li>▪ The CDVM and GoM jointly with the National Corporate Governance Commission (NCGC)) should ensure that the voluntary MCGC is widely implemented in practice. If a broad implementation is not achieved in the next two to three years, the CDVM should consider applying the MCGC on a “comply or explain” basis for all publicly traded companies. Non-listed companies should be encouraged but not required to follow the MCGC. The GoM along with relevant private sector associations should organize awareness raising events to build the business case for all companies to follow good corporate governance as described in the MCGC.</li> <li>▪ The CDVM and BAM should move from a compliance to a risk-based supervision approach, focusing on corporate governance as a key component of this approach.</li> <li>▪ BAM should implement corporate governance reforms in the banking sector, as outlined in the World Bank’s Corporate Governance Review of the Banking Sector.</li> <li>▪ The BVC should lead by example and comply or explain its adherence to the MCGC.</li> </ul>
Long term	<ul style="list-style-type: none"> <li>▪ Ongoing efforts by the CDVM and BAM to increase their independence with respect to nomination procedures and reporting lines should be strengthened.</li> <li>▪ The reform of the court system should continue to be a priority focus of the government to ensure that investor disputes are handled in an efficient, fair, and timely manner.</li> </ul>

A more detailed analysis and dataset can be found in the Detailed Country Assessment Database for the Morocco CG ROSC (2010 CG ROSC DCA).

# Assessment and Recommendations

## Chapter II of the OECD Principles: The Rights of Shareholders and Key Ownership

Figure 7: Morocco's implementation of Chapter II of the OECD Principles



As can be seen from Figure 7, Morocco has on the whole *partially implemented* Chapter II of the OECD Principles, which calls for the corporate governance framework to protect and facilitate the exercise of shareholders' rights. To further close the gap between Morocco's corporate governance framework and Chapter II of the OECD Principles, the GoM should consider the following reforms:

<b>Short term</b>	<ul style="list-style-type: none"> <li>▪ The legal framework should require companies to provide shareholders with the audited financial statements along with the GMS notice; moreover, the notice period of 15 days should be extended to 21 days to allow foreign investors to better consider their voting during the general assembly meeting.</li> <li>▪ Companies should be required or encouraged to disclose 'mechanisms for disproportionate control' (e.g. structure of company groups, shareholder agreements, the nature of material intra-group relations) to shareholders on a continuous basis.</li> <li>▪ Company should not be allowed to limit participation in the general assembly to shareholders holding up to ten shares.</li> <li>▪ Shareholders should have an explicit right to submit written questions before or to orally pose questions during the board during the general assembly; the board in turn should be required to answer such questions, within the confines of the company's confidentiality policy.</li> <li>▪ In addition to management, the full board should be legally required to attend the general assembly.</li> <li>▪ All trades by insiders should be fully disclosed.</li> </ul>
<b>Medium term</b>	<ul style="list-style-type: none"> <li>▪ The legal and regulatory framework should require or the MCGC encourage shareholders to approve stock options, share grants, or share participation programs by board members and senior executives.</li> <li>▪ The legal framework should require or MCGC encourage institutional investors to adopt good corporate governance structures and policies themselves. Institutional investors should further be encouraged to publicly disclose their voting policies, actual voting, and policies on conflicts of interest.</li> <li>▪ Companies should be encouraged to disclose their board nomination policies and processes.</li> <li>▪ All extraordinary transactions should be subject to a two-thirds majority by the general assembly, not only those that lead to a change in the articles of association.</li> </ul>
<b>Long term</b>	<ul style="list-style-type: none"> <li>▪ The legal and regulatory framework should specify a duty of loyalty of board members during a possible takeover or change in control.</li> <li>▪ Companies should be encouraged but not required to adopt cumulative voting.</li> <li>▪ The legal framework should be amended to include withdrawal rights for shareholders who voted against or did not participate in voting for a resolution adopted at a general assembly on extraordinary transactions.</li> </ul>

A more detailed analysis and dataset can be found in the Detailed Country Assessment Database for the Morocco CG ROSC (2010 CG ROSC DCA).

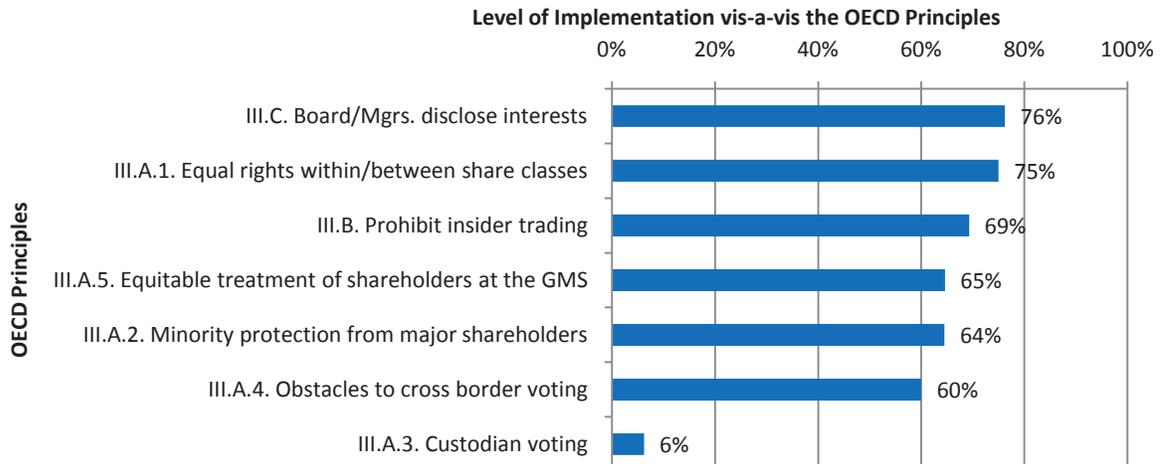


**See the Corporate Governance ROSC Database for a comprehensive gap analysis vis-à-vis Morocco's implementation of Chapter II of the OECD Principles.**

# Assessment and Recommendations

## Chapter III of the OECD Principles: The Equitable Treatment of Shareholders

**Figure 8: Morocco's implementation of Chapter III of the OECD Principles**



As can be seen from Figure 8, Morocco has *partially implemented* Chapter III of the OECD Principles of Corporate Governance, which calls for the corporate governance framework to ensure the equitable treatment of all shareholders, including minority and foreign shareholders, and to provide all shareholders the opportunity to obtain effective redress for violation of their rights. To further close the gap between Morocco's corporate governance framework and Chapter III of the OECD Principles, the GoM should consider the following reforms:

<b>Short term</b>	<ul style="list-style-type: none"> <li>▪ Shareholders should be able to bring an action against a company when the company behaves in a way that is prejudicial or unfair to the interests of the shareholder.</li> <li>▪ Minority shareholders associations should be encouraged to represent the interests of the minority shareholders.</li> <li>▪ Company insiders should be required to disclose ownership and trading in company share</li> <li>▪ Board members should be required to not only abstain from voting but also in participating in board discussions when conflicted.</li> </ul>
<b>Medium term</b>	<ul style="list-style-type: none"> <li>▪ The government of Morocco should follow the Doing Business Reform Advisory's memo on the Protecting Investors "Extent of Director Liability Index".</li> <li>▪ The government of Morocco should follow the Doing Business Reform Advisory's memo on the Protecting Investors "Ease of Shareholder Suits Index".</li> <li>▪ Extraordinary (large) related-party transactions should be subject to approval by the extraordinary general assembly. An auditor report should be required before the assembly.</li> </ul>

<b>Long term</b>	<ul style="list-style-type: none"><li>▪ The corporate governance framework should establish or recommend that custodians disclose their voting and voting policy to shareholders when no voting instructions were given.</li><li>▪ The legal or regulatory framework should require that depository receipt holders can issue binding instructions on how to vote their shares.</li><li>▪ The legal framework should clearly specify who is entitled to control the exercise of voting rights attached to shares when shares of (foreign investors) are held by (a chain of) intermediaries.</li></ul>
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A more detailed analysis and dataset can be found in the Detailed Country Assessment Database for the Morocco CG ROSC (2010 CG ROSC DCA).



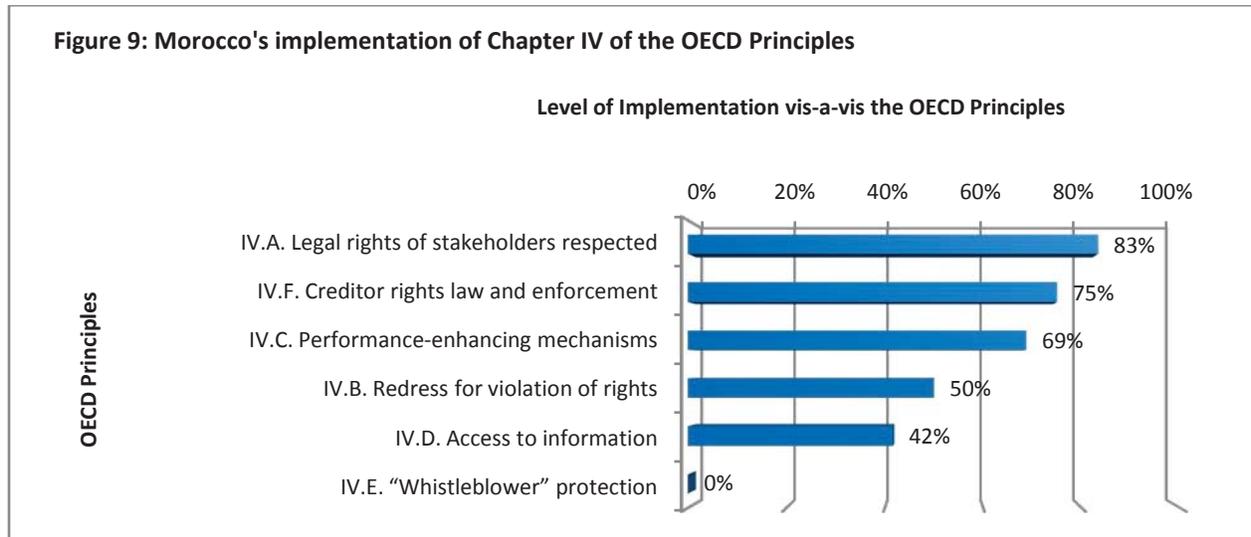
**Learn More**

See the Corporate Governance ROSC Database for a comprehensive gap analysis vis-à-vis Morocco's implementation of Chapter II of the OECD Principles.

# Assessment and Recommendations

## Chapter IV of the OECD Principles: The Role of Stakeholders in Corporate Governance

Figure 9: Morocco's implementation of Chapter IV of the OECD Principles



In aggregate, and as can be seen from Figure 7, Morocco has *partially implemented* Chapter IV of the OECD Principles of Corporate Governance, which calls for the corporate governance framework to recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. To further close the gap between Morocco's corporate governance framework and Chapter IV of the OECD Principles, the GoM should consider the following reforms:

<b>Short term</b>	<ul style="list-style-type: none"> <li>The legal and regulatory framework, or MCGC, should require or encourage companies to establish whistle-blowing policies. Ongoing efforts by the GoM to establish comprehensive whistle-blowing reforms should be strengthened to be effective by the end of 2010.</li> </ul>
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A more detailed analysis and dataset can be found in the Detailed Country Assessment Database for the Morocco CG ROSC (2010 CG ROSC DCA).



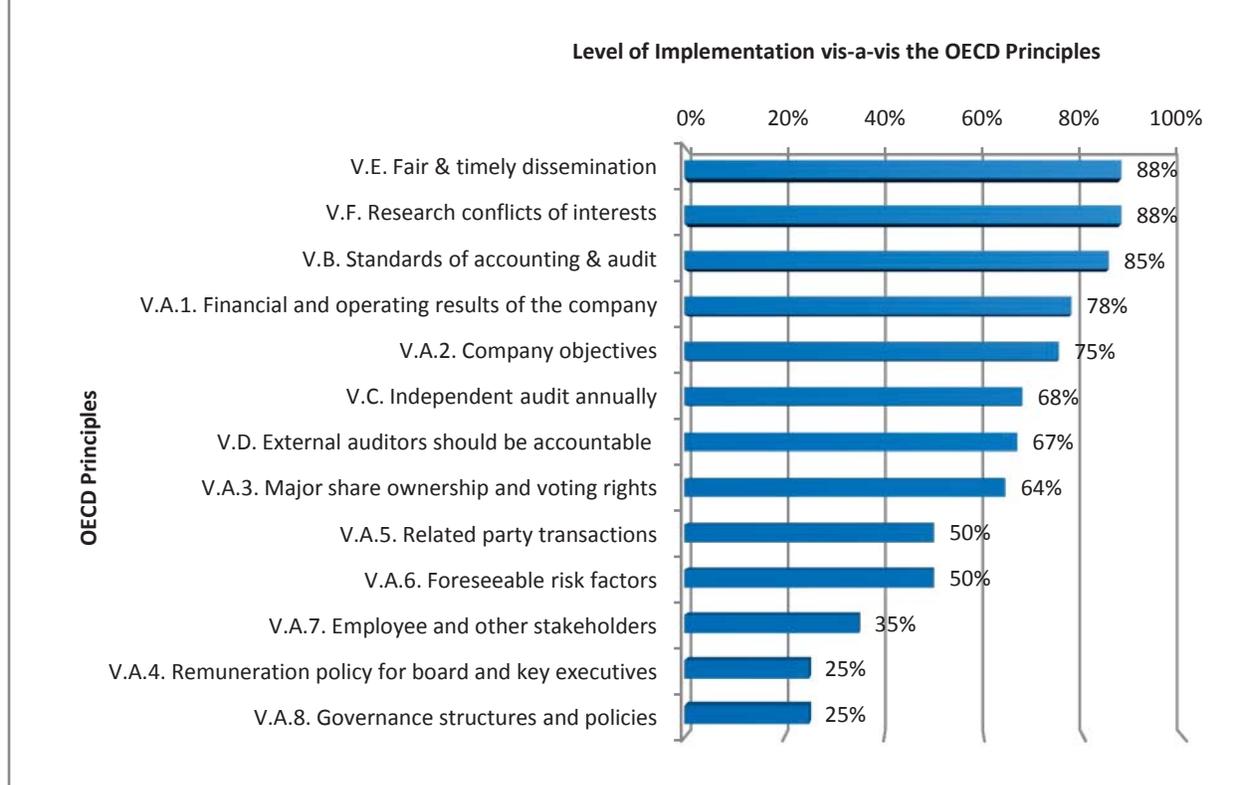
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See the Corporate Governance ROSC Database for a comprehensive gap analysis vis-à-vis Morocco's implementation of Chapter II of the OECD Principles.

# Assessment and Recommendations

## Chapter V of the OECD Principles: Disclosure and Transparency

**Figure 10: Morocco's implementation of Chapter V of the OECD Principles**



In aggregate, Morocco has *partially implemented* Chapter V of the OECD Principles of Corporate Governance, which calls for the corporate governance framework to ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. To further close the gap between Morocco's corporate governance framework and Chapter V of the OECD Principles, the GoM should consider the following reforms:



**Learn More**

See the Corporate Governance ROSC Database for a comprehensive gap analysis and vis-à-vis Morocco's implementation of Chapter IV of the OECD Principles.

<b>Short term</b>	<ul style="list-style-type: none"> <li>▪ All companies that are required to produce consolidated accounts should be required to prepare their financial statements in accordance with IFRS). And while a transition period may be appropriate, the GoM should encourage companies to follow IFRS.</li> <li>▪ All public interest companies should be required to publish annual reports comparable to those published by companies in OECD countries, including the full set of financial information and relevant non-financial information (background information on board members and managers, the company's control structures, corporate governance structures and policies, etc.).</li> <li>▪ Companies should be required to disclose their indirect and beneficial ownership structures to the public.</li> <li>▪ The beneficial shareholders themselves should also be required to publicly disclose their ownership in companies when they reach the five percent threshold.</li> <li>▪ Companies should be expressly required or encouraged to disclose to shareholders whether individual board members are considered to be independent.</li> <li>▪ The MCGC should agree on a definition of what constitutes an independent director; in absence thereof, companies should be required or encouraged to disclose to shareholders the criteria it uses to define an independent director.</li> <li>▪ The GoM, MCGC, and IMA should jointly build the business case to strengthen non-financial disclosure, in particular with respect to the disclosure of non-commercial objectives, ownership, remuneration policies, material foreseeable risk factors, stakeholder and employee issues, and corporate governance structures and policies.</li> <li>▪ The current board reports should go beyond the current standard and contain more qualitative discussions and assessments by management of the factors that affected the company's financial condition and health. The CDVM, BVC or other body should develop a model set of guidelines on how to produce such report.</li> <li>▪ Companies should be required to establish an internal audit function where the auditor reports to the board or its audit committee, and not to the CEO or CFO.</li> <li>▪ Companies should be required to rotate the external audit partner, not necessarily the audit firm.</li> </ul>
<b>Medium term</b>	<ul style="list-style-type: none"> <li>▪ Companies should be required to publicly disclose related party transaction either in their financial statements (unless they use IFRS) or annual reports.</li> <li>▪ The GoM should require the OEC to consistently enforce and disclose its quality control process or create an independent oversight body that ensures that audit firms are conducting their audits in compliance with Moroccan ISA.</li> <li>▪ The CDVM and BAM should ensure that they know the identity of the shareholders who own the capital that forms part of the free float, which in some cases reaches up to 30 percent, as well as who the beneficial owners are.</li> <li>▪ The OEC should launch its ethics code for the profession, modeled after IFAC's Code of Ethics for Professional Accountants as issued by the International Ethics Standards Board for Accountants (IESBA).</li> </ul>

<b>Long term</b>	<ul style="list-style-type: none"> <li>▪ Companies should be required or encouraged to disclose the remuneration of its board members and key executives on an individual basis.</li> <li>▪ The Registry should have the necessary resources to afford an appropriate IT system to facilitate record keeping and ease of access.</li> <li>▪ Companies should be encouraged to modernize their online presence and include corporate governance and/or investor relations pages to better allow investors to access financial and non-financial information.</li> <li>▪ Companies should be encouraged to hire a dedicated individual responsible for investor relations.</li> <li>▪ The Registrar should be given the resources to develop an advanced electronic filing system that requires companies to upload information to the public domain.</li> </ul>
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A more detailed analysis and dataset can be found in the Detailed Country Assessment Database for the Morocco CG ROSC (2010 CG ROSC DCA).



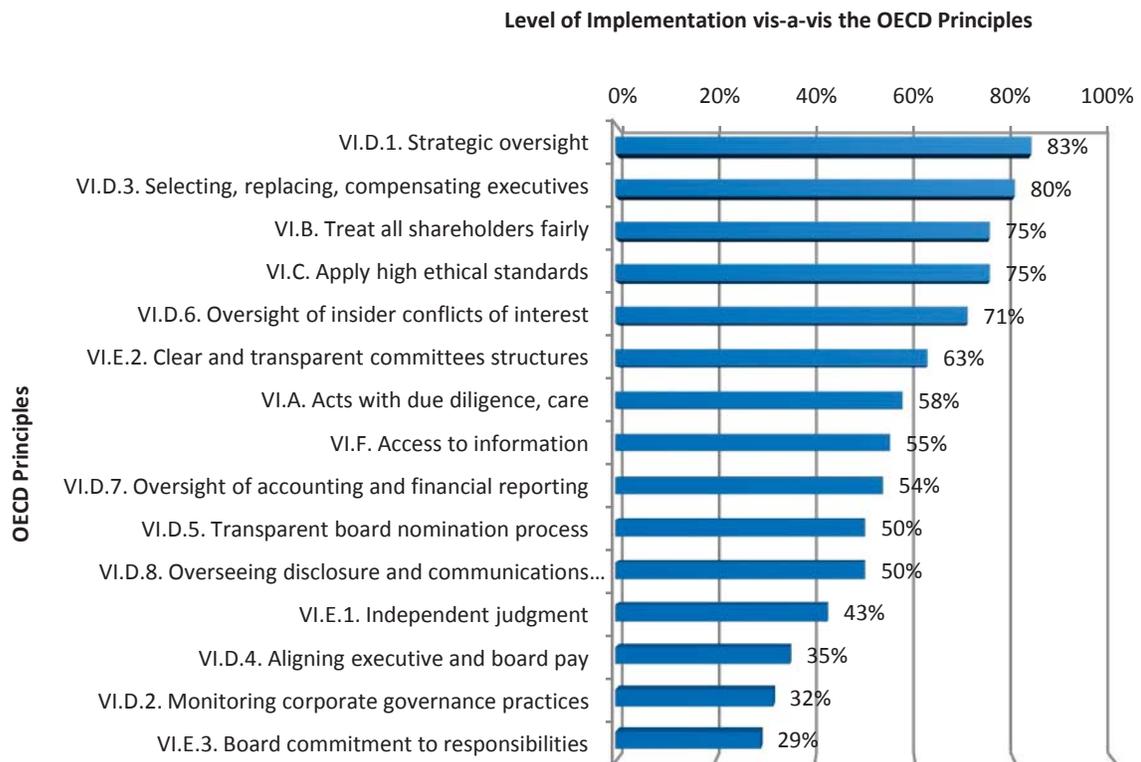
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See the Corporate Governance ROSC Database for a comprehensive gap analysis vis-à-vis Morocco's implementation of Chapter II of the OECD Principles.

# Assessment and Recommendations

## Chapter VI of the OECD Principles: The Responsibilities of the Board

**Figure 11: Morocco's implementation of Chapter VI of the OECD Principles**



As can be seen from Figure 11, Morocco has *partially implemented* the implementation of Chapter VI of the OECD Principles of Corporate Governance, which calls for the corporate governance framework to ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders. To further close the gap between Morocco’s corporate governance framework and Chapter VI of the OECD Principles, the GoM should consider the following reforms:

<b>Short term</b>	<ul style="list-style-type: none"> <li>▪ The legal and regulatory framework and/or MCGC should provide a definition of independence, in-line with good practice.</li> <li>▪ Companies should be required or encouraged to designate and publicly disclose which board members are deemed to be independent.</li> </ul>
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<b>Medium term</b>	<ul style="list-style-type: none"> <li>▪ The MCGC should encourage companies to ensure that their board members are formally and explicitly informed of their duties of loyalty and care, e.g., as part of their induction training or letter of appointment to the board, in the majority of banks and companies.</li> <li>▪ The MCGC should encourage boards publicly disclose remuneration policies and the relationship between performance and remuneration. The IMA should in addition develop a module for boards on how to develop remuneration policy on both executive and non-executive remuneration, with a particular focus on the relationship between performance management systems and the company's short and long term performance.</li> <li>▪ Banks in particular should be required to explain to their stakeholders the relationship between and the long term performance.</li> <li>▪ The MCGC should encourage companies to publicly disclose basic information about the primary employment of its board member, unless it is relevant as a matter of perceived qualification.</li> </ul>
<b>Long term</b>	<ul style="list-style-type: none"> <li>▪ The IMA should help train board members on the need to develop and disclose policies on how their company interacts with stakeholders in relation to significant matters.</li> <li>▪ The corporate governance framework does not recommend that the results of a board evaluation be linked to the remuneration of non-executive board members, in addition to attendance fees and fees for additional responsibilities (e.g. taking on the chairmanship or participating in committees).</li> <li>▪ The IMA should develop training modules on: <ul style="list-style-type: none"> <li>– Board evaluations</li> <li>– Board remuneration, including the role and functioning of remuneration committees.</li> <li>– Formal and transparent board nomination and election process, including the role and function of nomination committees.</li> <li>– Independence. Independent board members are not required or encouraged to play a lead role in nominating, hiring, and dismissing key executives, as the MCGC only recommends that one independent director be appointed to the remunerations and nominations Committee, which is in charge of defining conditions for nomination, hiring and dismissal of board members and executives, or provide evaluation of candidates suggested by shareholders.</li> </ul> </li> </ul>

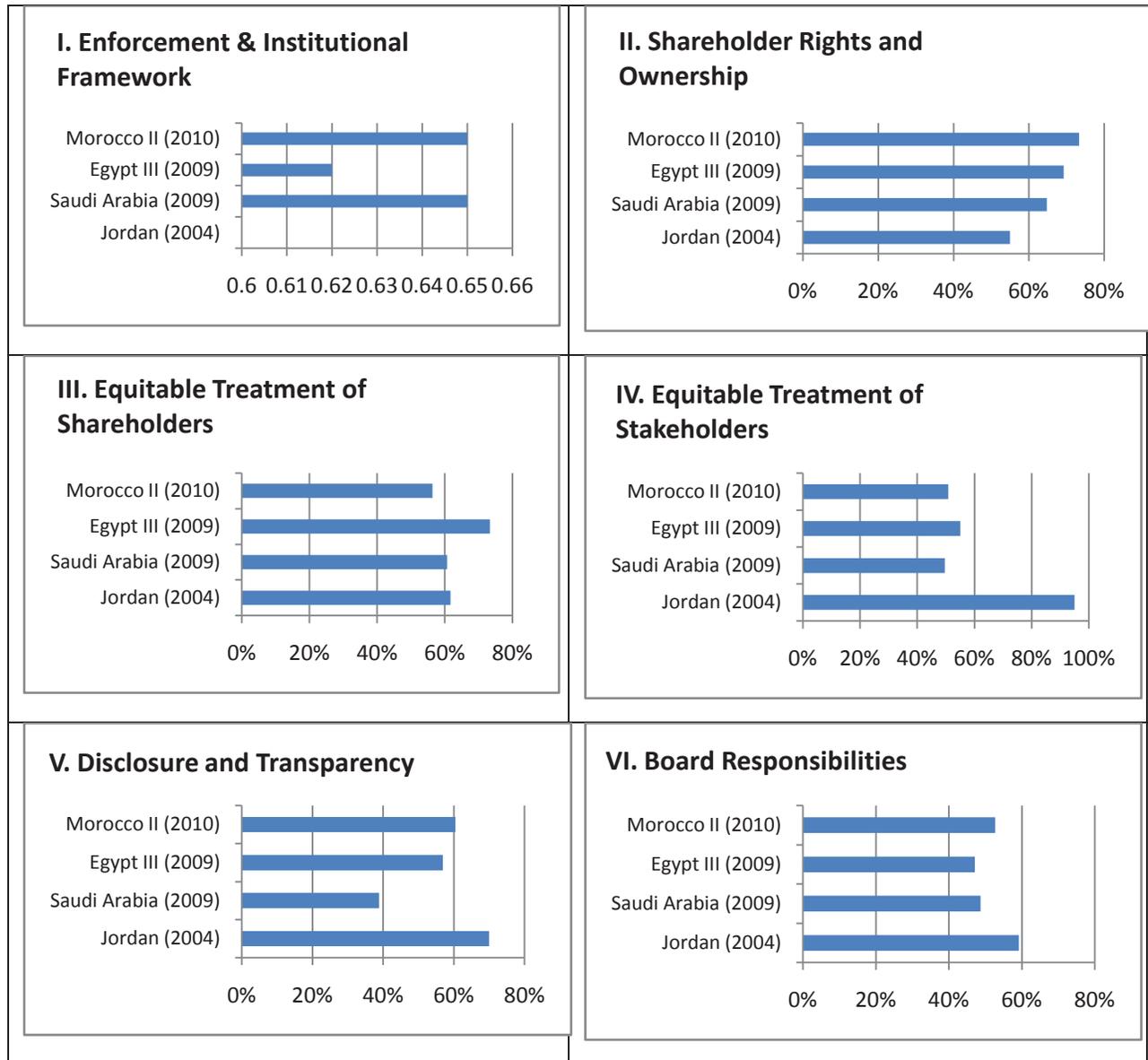
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**Learn More**

**See the Corporate Governance ROSC Database for a comprehensive gap analysis vis-à-vis Morocco's implementation of Chapter II of the OECD Principles.**

The figures below compare the implementation of the OECD principles in Morocco, Jordan, Egypt, and Saudi Arabia.





# Acronyms

BAM	<i>Banque Al-Maghrib</i> (Central Bank of Morocco)
BVC	<i>Bourse de Valeurs de Casablanca</i>
CEO	Chief Executive Officer
CDVM	<i>Conseil Déontologique des Valeurs Mobilières</i> (the Moroccan Securities Regulator)
CDG	<i>Caisse de Dépôt et de Gestion</i>
CGEM	<i>Confédération Générale des Entreprises du Maroc</i> (Moroccan Association of Enterprises)
CG ROSC	Corporate Governance Report on the Observance of Standards and Codes
CNC	<i>Conseil National de la Comptabilité</i> (National Accounting Council)
CNGE	<i>Commission Nationale Gouvernance d'Entreprise</i> (National Corporate Governance Commission)
CSR	Corporate Social Responsibility
JSCL	Joint Stock Company Law
DAPS	<i>Direction des Assurances et de la Prévoyance Sociale</i> (Department for Insurance and Social Welfare)
DEPP	<i>Direction des Entreprises Publiques et Privatisation</i> (Department for SOEs and Privatization)
FSAP	Financial Sector Assessment Program
GMS	General Meeting of Shareholders or general assembly
IMA	<i>Institut Marocain des Administrateurs</i> (Moroccan Institute of Directors)
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
MAS	Moroccan Accounting Standards
MCGC	Morocco Corporate Governance Code
MD&A	Management Discussion and Analysis
MEGA	Ministry of Economic and General Affairs
MENA	Middle East and North Africa
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MSA	Moroccan Standards on Auditing
OEC	l' Ordre des Experts Comptables (Moroccan Institute of Certified Public Accountants)
OECD	Organization for Economic Cooperation and Development
ROSC	Report on the Observance of Standards and Codes
SOE	State-owned enterprise
SRO	Self-regulatory organization
NBFIs	Non-bank financial institutions



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This report is one in a series of country-level corporate governance assessments carried out under the Reports on the Observance of Standards and Codes (ROSC) program. The corporate governance ROSC assessments benchmark the legal and regulatory framework, company practices, and enforcement framework against the OCED Principles of Corporate Governance, the international reference point for good corporate governance.

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