



The Case for Compliance

Is your company listed on the Saudi Stock exchange? Do you do business with companies that are? Do you do business outside the Kingdom of Saudi Arabia? If the answer to any of these questions is yes, then you probably need a Compliance program.

Saudi Companies

For companies listed on the Saudi Stock exchange the Corporate Governance Regulations (“CGR”) require the Board of Directors to develop written policies to prevent conflicts of interest and to ensure compliance with laws and regulations. Even if your company is not listed, the CGRs represent the best practices for Saudi Companies.

International Treaties & Regulations

In addition to the CGRs, international treaties and foreign laws encourage the development and implementation of policies and procedures to prevent violations of the law.

For example, the United Nations Convention Against Corruption, to which all GCC Countries are members, encourages its members to develop and implement effective policies and practices to prevent corruption.

The U.S. Federal Sentencing Guidelines created the first statutory incentive for Companies to develop effective ethics and compliance programs. These Guidelines require a reduction in fines and penalties for Companies that have effective programs, to prevent and detect violations of law, in place at the time a violation occurs.

The UK Bribery Act goes further, by providing a full defense against prosecution, where a Company has adequate procedures in place to prevent bribery.

Regulatory & Business Partner Expectations

Because of these statutory incentives, business partners prefer doing business with companies that have effective compliance programs. Often including these requirements in their Supplier Codes of Conduct and contract terms and conditions.

Compliance Programs

Since the issuance of the U.S. Federal Sentencing Guidelines in 1991, regulators around the world¹ commonly define the following as elements of an effective compliance program:

1. Written Policies and Procedures
2. Responsible Corporate Official
3. Training and Awareness
4. Reporting and Enforcement
5. Monitoring, Audit, and Response

These elements are also reflected in the CGRs’ requirements that the Board of Directors develop written policies to prevent conflicts of interest and to ensure compliance with laws and regulations.

Conflicts of interest policies and procedures are designed to promote ethical behavior that are in the best interest of the company. Compliance policies and procedures are designed to ensure compliance with the laws that apply to the

Company's operations, employees, and business transactions.ⁱⁱ

Conflicts of Interest

The CGR establishes a number of requirements for conflicts of interest policies and procedures:

They must:

- Be in writing,
- Apply to Board members, substantial stakeholders, Senior Executives and other employees of the Company,
- Require the avoidance conflicts between personal interest and Company interest,
- Require prioritizing Company interest over personal interests,
- Provide examples of conflicts of interest that are relevant to the Company's activities,
- Have procedures for disclosing conflicts of interest and obtaining authorization or prior approvals,
- Require constant disclosure of situations that may lead to conflicts of interest,
- Explain procedures to address violations, and
- Ensure that Company assets and resources are used to achieve Company objectives, and not personal interests.

The CGRs also places the additional conflicts of interest requirements on Board Members:

They must:

- Protect the confidentiality of company information,

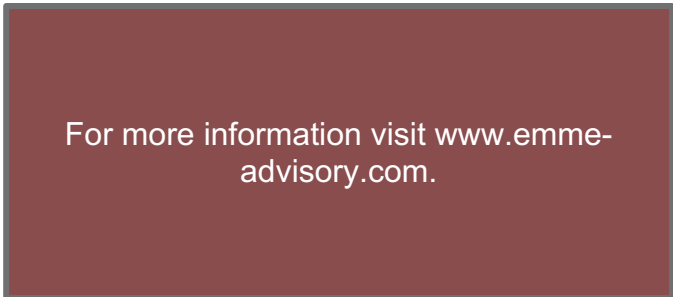
- Not benefit from Company assets, information or investment opportunities learned as a member of the Board.
- Board member, and Senior Executives, may not accept gifts from anyone who has a commercial transaction with the Company that could lead to a conflict of interest.

Codes of Conduct

In contrast, the CGR only establishes the requirement for policies and procedures to ensure compliance with relevant laws and regulations.

Determining which laws and regulations are relevant to your operations depends on what your company does; where it operates; and who it does business with?

See "Building Your Compliance Program" to explore more on how to build a regulatory compliance program that is right for your company and its operations.



ⁱ Additional authorities include the "Preventative Measures" of the United Nations Convention Against Corruption, the Organization for Economic Cooperation and Development's "Good Practice Guidance on Internal Controls, Ethics, and Compliance," "Guidance" for the U.K. Bribery Act, the U.S. Resource Guide to the U.S.

Foreign Corrupt Practices Act, and the Evaluation for Corporate Compliance Programs, updated by the U.S. Department of Justice on April 2019.

ⁱⁱ See "Do I need an Ethics Program, Compliance Program or both?"