Middle East

Point of View

Published by Deloitte & Touche (M.E.) and distributed to thought leaders across the region | Fall 2016

1+1=3
Increasing family wealth

Islamic megabank
To the rescue?

Optimal reporting
IR you doing it?

Test.Plan.Train.Repeat.
Practice makes perfect

Shaping the next 90 years

Deloitte.

1926
2016

Ninety years in the Middle East

Fall 2016
Middle East Point of View
Published by Deloitte & Touche (M.E.)

To subscribe
mepov@deloitte.com

Read ME PoV on your iPad.
Download ME PoV app.

www.deloitte.com/middleeast

A word from the editorial team

There have been over 90 events and inventions that have reshaped the course of history over the past 90 years: landing on the moon, supersonic commercial flight, mobile phones, a global virtual yearbook...to name but a few.

The Middle East North Africa region has also seen its share of momentous events. With the definitive demise of the Ottoman Empire in the 1920s, countries in the region claimed their independence from their European administrators, most of them indeed becoming countries for the first time. The unification of Saudi Arabia in 1932, the formation of the Gulf Cooperation Council in 1981, the nationalization of the Saudi Arabian oil industry in 1973 are some of the events that have shaped the area. Punctuated by wars, revolutions and uprisings, the area has also witnessed great industrial, technological, educational, social advances that have made the Middle East a pivotal player in global politics and finance.

Throughout these events and occurrences, Deloitte has grown in the Middle East, this year celebrating 90 years as a leader in financial, auditing and consulting services.

Some of these events have divided the financial world into pre- and post-modes. Nowhere is this more evident than in the consulting, auditing and accounting world, with new standards and regulations continually evolving.

The direction in Enterprise Resource Planning, for example, is toward "more transparent and advanced tools that practitioners need so as to cope with the fast changing economy and public needs," says Bilal Marroush in his article on reengineering core concepts in accounting and auditing standards.

This change does not only encompass the traditional banking sector but Islamic financial institutions as well. In his article *Disruptive innovation*, Dr. Hatim El Tahir explains that Islamic banking needs to reevaluate its value proposition through revamping governance, risk and compliance procedures.

Still on the subject of Islamic banking, Abid Shakeel asks whether an Islamic megabank can redress liquidity and other challenges in Islamic banking. "While the formation of Megabanks with wide ranging remits would be a real game changer to make US$6 trillion by 2025 a realistic ambition for the Islamic finance industry, it should be noted that there also needs to be a political will and national level regulations to embrace such institutions in the respective jurisdictions" says Shakeel, opening up the subject to further discussion.

Our other articles in this issue of *Middle East Point of View* include a look at the rise of medical tourism in the region and Saudi Arabia's efforts at nationalizing the workforce. Amir Mayo says the Kingdom's plan to nationalize the workforce is finally coming of age. "Companies within the Kingdom that do adapt to the increasing demands to nationalize the workforce are cognizant that further protectionist measures will be introduced in the near future," he says.

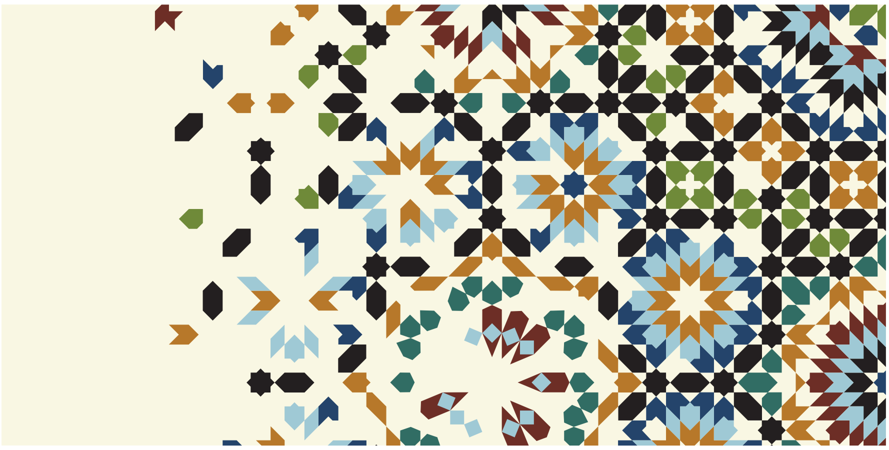
On healthcare in the United Arab Emirates, authors Sachin Singhal and Manish Gourisaria say that with medical tourism on the rise, there are challenges but the outlook is bright.

Integrated reporting (*IR you reporting optimally*) and enhancing wealth in a family business (*1+1=3*) by Rami Wadie and Scott Whalan respectively, are some of the other subjects we cover in this 90th anniversary issue.

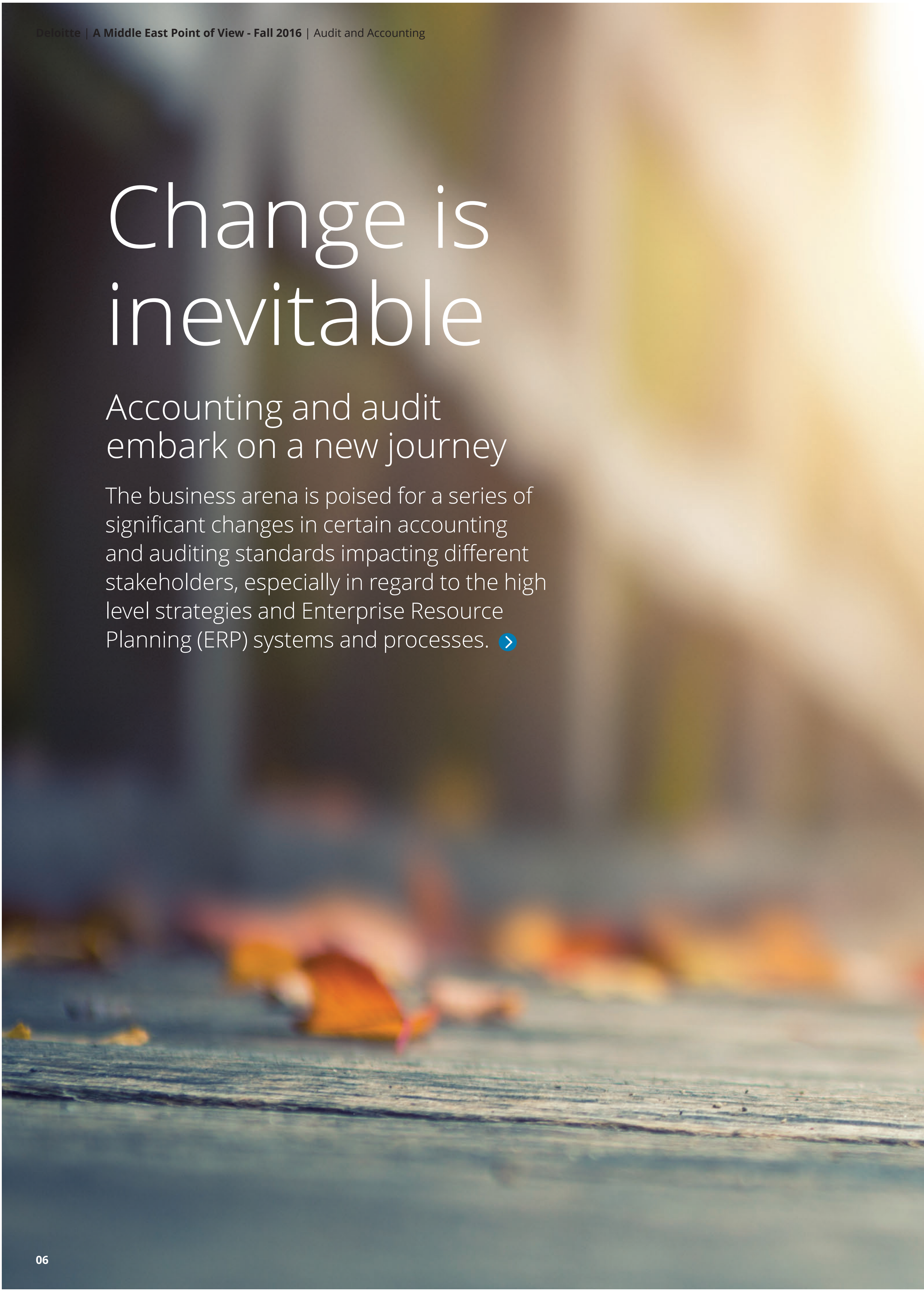
And how better to celebrate 90 years than by aiming higher and achieving more? Sit back and enjoy the quality content, we look forward to providing you with insight for the coming 90 years.

ME PoV editorial team

Contents




Text_



Change is inevitable

Accounting and audit embark on a new journey

The business arena is poised for a series of significant changes in certain accounting and auditing standards impacting different stakeholders, especially in regard to the high level strategies and Enterprise Resource Planning (ERP) systems and processes.

Reengineering the core concepts

The direction is toward more transparent and advanced tools that practitioners need to cope with the fast changing economy and public needs. The amendments and new releases in auditing and accounting standards are a reflection of the evolution in the market. Ever more complex business transactions put a heavy strain on different market players to provide sound and efficient solutions to interpret and translate them into a company's records and external reporting. To understand this important phase better, it is key to have a quick and insightful look into the upcoming changes, the associated challenges and possible action plans from auditors on the one hand and company management on the other.

Redefining certain accounting perceptions

Over the past couple of years the International Accounting Standards Board (IASB) announced several amendments and new releases of accounting standards that will drastically impact financial reporting requirements. The main triggering factor for this change is the increasing need to provide users of financial statements with a more transparent view of the numbers. The global business market experienced a wide spectrum of transactions, business deals, technological advancements, types of investments and ERP systems over the past decade, that have imposed high risks on the organizations and pressure on regulators, accountants, auditors and other concerned parties in the way they address such matters.

As an example of the significant changes, the IASB has issued a new International Financial Reporting Standard (IFRS15-Revenue from Contracts with Customers) that establishes the principles by which an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS15 will significantly impact the revenue recognition process wherein the control approach (transfer of risk and rewards) under the exiting standard (IAS18) will be superseded by a "five-step model" as follows:
Identify the contract **->** Identify the performance obligation **->** Determine the transaction price **->** Allocate the price to the transaction and finally **->** Recognize revenue when each performance obligation is satisfied.

More standards/amendments to be implemented in the coming couple of years (IFRS9-Financial Instruments, IFRS16-Leases and others) will also trigger a redefinition of the core understanding of accounting principles– a certain indication that the future approach is for a more detailed scrutiny of transactions to establish clearer handling of controversial and judgmental accounting issues.

Auditors: tell me what's on your mind!

No doubt that different legislators and audit boards are looking to come up with the proper tools to enhance communication with different users of the financial statements.

As an example of recent developments, the International Auditing and Assurance Standards Board (IAASB) issued new and revised auditor reporting standards to be applied in 2016 subject to a different date being specified in local law or

The amendments and new releases in auditing and accounting standards are a reflection of the evolution in the market. Ever more complex business transactions put a heavy strain on different market players to provide sound and efficient solutions to interpret and translate them into a company's records and external reporting.

regulation. The new standards drastically change the audit report, which is the most visible output of an audit. Aside from the modifications in the structure of the audit report, an integral part has been introduced, Key Audit Matters (KAMs), in which the auditor explains certain matters which took considerable audit attention or are rather considered to be complex, judgmental and very material or risky to the financial statements. Such points were covered previously in the auditor's communication with those charged with governance yet with the new standard, these matters will be further shared with the public, as part of the auditor's report, for a more transparent and clearer level of communication. While the application might be cumbersome and complex for both management and the auditors, the opportunity and benefit to the users of the financial statements outweigh such challenges. The users are more aware of critical areas, have clearer information to decide on the level of trust they place in the financial statements as well as hearing the auditor's perspective on risks. No doubt that such change would be very helpful to set proper expectations, avoid confusion and allow the auditors to articulate their work clearly to the public.

Handle with patience

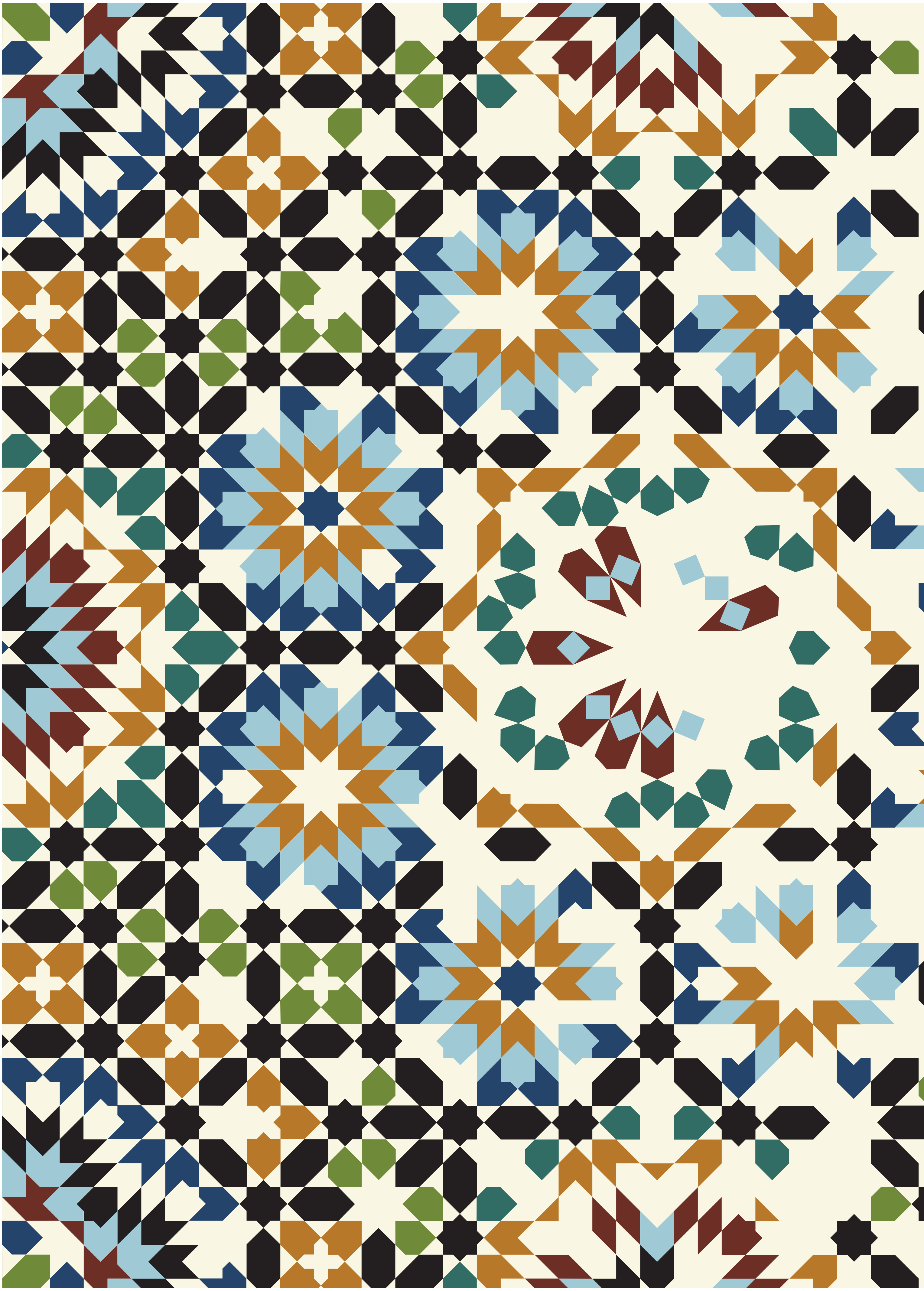
While the change is necessary and crucial for a better business outlook, there are serious challenges that have to be considered. The application of some of the standards entail additional costs that might be significant to some organizations whose systems cannot be tailored to cater to the new requirements, notwithstanding the need to train the staff, update policies and reconsider strategies to achieve compliance. On the other hand, audit firms are also taking serious steps to continue enhancing their approaches, systems and ensure that their professionals are equipped with the necessary tools to execute their work with the highest standards of quality.

Embrace the change or miss the ride

The market is moving at a very fast pace and this goes for the different needs of the global business platform. Changes have a wide impact on different professions and would definitely need seamless cooperation between regulators, senior management, auditors and other stakeholders. It is, however, imperative to envisage these changes as opportunities and try to leverage their positive outcome on the workforce. A key factor is to have a flexible mindset that will foster the efforts toward receptiveness of helpful ideas and overcome the associated difficulties and challenges in resisting change.

by **Bilal Marroush**, Principal, Audit, Deloitte, Middle East

No doubt that different legislators and audit boards are looking to come up with the proper tools to enhance communication with different users of the financial statements

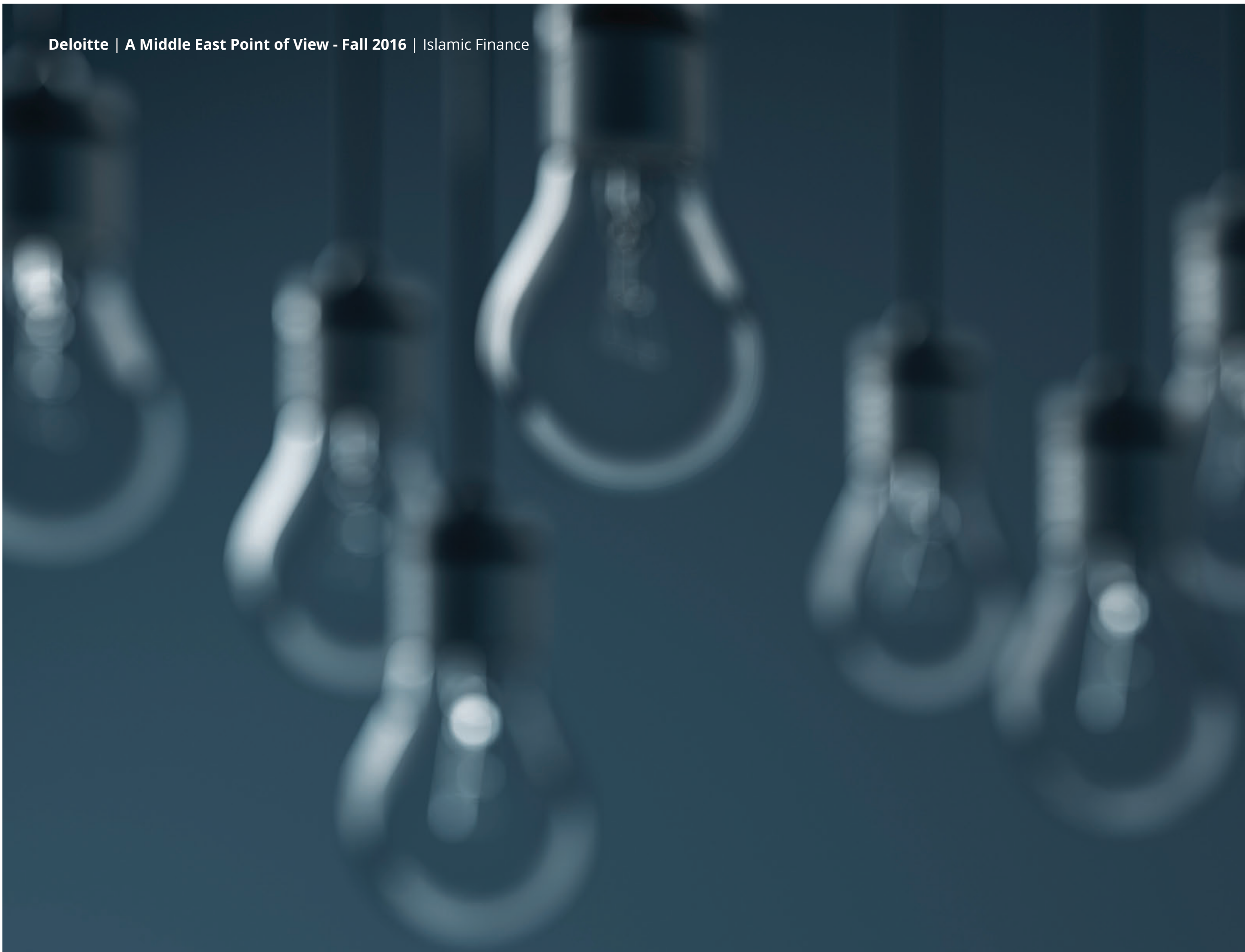


Islamic banking and finance

Ambition vs. growth

The opportunity presented to the Islamic finance industry–which had achieved strong growth by 2008–as an alternative mode of finance that would be more ethical and fair than the conventional banking system that brought the world's financial markets to a grinding halt, was the first such opportunity since its inception back in the 1960s. The sector has grown considerably, with assets over US$2 trillion in 2015, and growth expected to accelerate further and surpass the US$3 trillion mark by 2020.

This figurative bed of roses is not free of thorns however, as issues of liquidity and reporting standards threaten to create a dissonance between the growth and ambition of the Islamic finance industry.



Disruptive innovation

Reinventing the model

Institutions offering Islamic Financial Services (IIFS) need to revamp their Governance, Risk and Compliance (GRC) practices in order to drive sustainable growth and ultimately reinvent the value proposition of Islamic finance.

The Islamic financial services industry continues to experience profound regulatory and practical challenges and there is continued pressure on industry stakeholders to revisit their governance and business models. Key to these issues is the regulatory inconsistency that exists due to different regulatory regimes, and in some markets where the industry has operated and evolved, different products structure offerings. Several IIFSs maintain multi-country operations and face the challenge of dealing with the different regulatory and financial reporting standards, such as IFRS (International Financial Reporting Standards) versus AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) as well as modes of financing and capital requirements, to name a few.

That said, regulatory inconsistency and other practical differences have all created an unnecessarily uneven playing field upon which the industry grows and also potentially acts as delivering a competitive disadvantage to the Islamic financial service industry.

This article discusses the broad industry stakeholders' considerations and attempts to provide practical insights on three focus practices: Regulation, market practices and business support. It argues that industry strategists and thought leaders should adopt a culture of change and should drive innovation in business and human capabilities that will ensure efficient business processes and good governance practices.

Change in this case is defined as a strategy implemented by the board, executive management, and designed to provide an overhaul plan to implement leading industry practices in the following strategic priority areas in Islamic finance:

- Strengthening the governance, risk and compliance environment.
- Improving risk management and internal controls.
- Enhancing financial reporting and disclosure practice.
- Ameliorating Sharia' compliance process and assurance.
- Upgrading business models to respond to market changes and regulatory requirements.
- Leadership and talent development.
- Industry collaborative initiatives.

For many IIFS, a change may be the right plan for the industry's boards and executive management to revitalize and energize policies and plans, and boldly develop the services and capabilities needed to support future growth objectives

Each of these practices involves major decisions and significant change. One new approach that we advocate is to think about engaging the industry in collaborative dialogue platforms to address the catalysts for change in regulation, governance, risk and reporting transparency. This approach is driven partly by the current need to stand up to competition and challenges, and partly by the increasingly strategic role that change is expected to play in business today. For many IIFS, a change may be the right plan for the industry's boards and executive management to revitalize and energize policies and plans, and boldly develop the services and capabilities needed to support future growth objectives.

Industry stakeholders should lead sustainable growth in developing a change strategy to drive innovation that would, in turn, benefit the industry and society as a whole. Some of the critical steps include internal and external challenges in the areas of regulation, risk, governance, leadership and operational considerations. These cross-organizational issues rank high on the agendas of boards, CEOs, and executive management of IIFS.

While not intended as a roadmap, the whitepaper serves as a blueprint for IIFS wishing to understand, and ultimately act on, the business model challenges.

Key insights

1. Risk-based approach to regulation

Given the differentiating factor of Sharia' compliance, IIFS are encouraged to adopt the risk-based approach guidelines set by industry standards such as the revised risk-based approach guiding notes developed by the Islamic Financial Services Board (IFSB)–13,14,15 and 16.

2. Need for better cross-border cooperation

Discussions with industry thought leaders reveal that there is a need for better cross-border cooperation and coordination between different regulatory authorities in key markets. This is an absolute priority to improve regulatory consistency toward market synergies.

3. Culture of regulatory compliance

Industry personnel should observe ongoing efforts to respond to regulatory changes and requests for information.

4. Implementation of industry best practices

Standard-setting bodies (SSBs) such as the IFSB (Islamic Financial Services

Board), AAOIFI and IIFM (International Islamic Financial Market) often look to the leading IIFS in the industry, and based on which they develop standards and guidance for new regulations in risk, capital and solvency. In these instances, they develop industry best practices and assist IIFS in implementing them. However, the industry should be given more incentives to implement these standards. National regulatory authorities equally need to help create the required awareness among market players and other stakeholders to adapt a culture of good practices.

Navigating the route to change

A change strategy to reinvent the value proposition of the Islamic financial service industry is high on the agenda of many industry leaders. This necessity was fueled lately by the global economic downturn coupled with geopolitical risks, that created more pressure on industry strategists and policy-makers.

Evidently, they need to make significant investments in planning and executing a change strategy. Embracing the issues and challenges discussed in this whitepaper will arguably help IIFS sustain business continuity. However, too often the same rigor and commitment are not dedicated to preparing the functional leadership team to navigate this change.

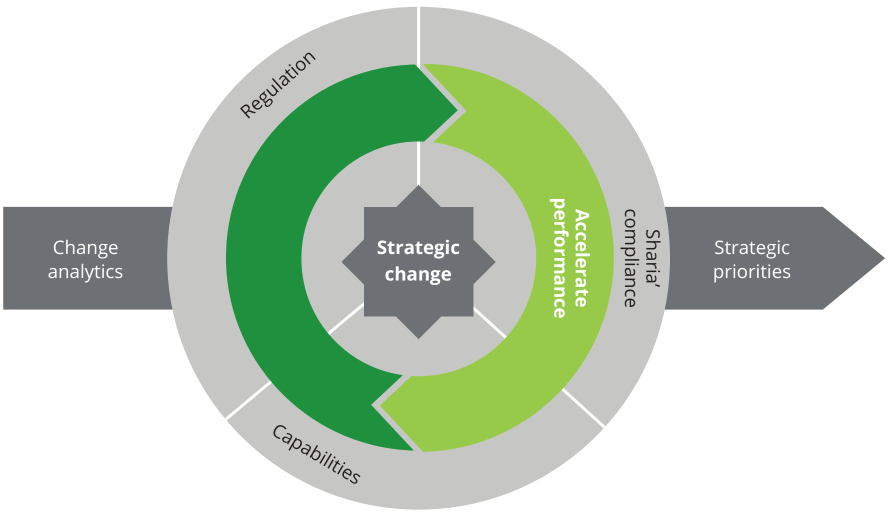
As an industry executive, your leadership team will need to invest in building a committed and aligned team to address your organization's needs and address gaps in practices and expertise.
At the same time there are undoubtedly business benefits from enhanced change analytics, particularly in view of the much more sophisticated governance, regulation and compliance that are key to the strategy. The chart at right sheds light on the process of change requirements and assessment. By analyzing governance frameworks using sophisticated change analytics, Islamic finance professionals can develop the pressing strategy solutions that enable their institutions to improve governance practices and accelerate performance.

In parallel, industry executives can bring more value to their IIFS using this approach by addressing questions such as:

- Are the business and financial goals of the IIFS viable?
- What products and markets deliver the greatest promise for revenue or growth in a particular jurisdiction and set of regulations?
- How should the IIFS revamp its business and financial model to generate a competitive advantage?
- How often should governance frameworks be updated to reflect on the business environment and the institution's business objectives?
- What resources and capabilities enable management to effectively execute and deliver the change strategy without impacting on the fundamentals of Sharia' compliance?

The answers to the above questions and acting upon them should help deliver the strategic change aspired to by industry leaders, and create value to shareholders and stakeholders. Leadership and management executives can tailor this approach and choose effective ways to implement a change strategy that is able to enhance the governance, risk-management and compliance (GRC) practice that in turn is able to drive innovation in building business capabilities and Islamic financial solutions that drive sustainable growth.

by **Dr. Hatim El Tahir**, Director, Deloitte Islamic Finance Knowledge Center, Middle East



Islamic megabank

The redeemer?

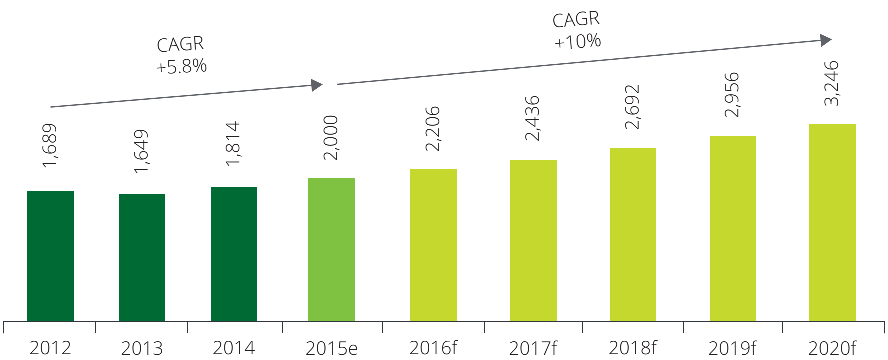
Liquidity instruments available to Islamic Banks are few, with many lacking universal Sharia' approval across jurisdictions. As a result, IFIs face greater difficulty in managing their liquidity.

Islamic Finance Institutions (IFIs) are currently present in over 70 countries, half of which are non-Muslim countries. This widespread network of IFIs is supported by organizations such as the Islamic Development Bank, which played a major role in triggering the launch of Islamic Finance operations in several countries including Malaysia and Iran. Other organizations have also been established to support the Islamic Finance industry's growth: in 2002 the Liquidity Management Center (LMC) and International Islamic Rating Agency (IIRA) were both established and in 2009, the International Islamic Liquidity Management (IILM) was established.

These bodies have been instrumental in accelerating the growth of the Islamic banking industry, supporting the governance, promotion and expansion of Islamic Banking operations. Nevertheless, some fundamental challenges remain.

Conventional credit institutions have, at their disposal, well-developed interbank markets that can be tapped for short-term funding, as well as a wide range of instruments that can be traded on active secondary markets. Liquidity management issues for the Islamic Banking industry are different from those in conventional banking. Unless there is an asset held somewhere in lieu of it, money is not considered a tradable commodity in Islam, and instruments used by conventional banks are not permissible due to certain Sharia' compliance criteria. Liquidity instruments available to Islamic Banks are few, with many lacking universal Sharia' approval across jurisdictions. As a result, IFIs face greater difficulty in managing their liquidity. The dearth of financial instruments at the disposal of IFIs makes for less efficient liquidity management, as more than necessary cash is held, thereby negatively affecting profitability.

Global Islamic finance assets (US$Bn)



Source: ICD Islamic Finance Development Report 2015, Monitor Deloitte Analysis 2016

Liquidity is a key challenge as IFIs have limitations on managing their short-term liquidity, as compared to conventional banks that have a wide variety of options to manage liquidity and remain connected to global financial markets.

Liquidity management organizations such as the IILM and LMC have addressed some of the liquidity challenges but there are still some limitations. The variety of products remain limited as structured products are scarce across the industry:

It is not possible to have a secondary market in Sukuk trading or for effective liquidity management programs to be put in place without the commensurate development of Islamic financial tradable products to increase the overall volume available–with a supply/demand imbalance, instrument holders feel unable to trade their positions for fear of not being able to find another suitable asset in which to invest. As a result, the prevailing culture is to buy and hold to maturity, which is only exacerbating the situation. Thus the vibrant secondary market for liquidity management instruments that exists for conventional bonds is sorely lacking in the Islamic Finance world.

Sharia' compliance is another limitation when managing liquidity. The different interpretations on what is acceptable as a Sharia'-compliant product has created an obstacle towards standardizing Sharia'-compliant Islamic Banking contracts and instruments. While central banks in a number of jurisdictions have standardized some of the Sharia' product structures, a variance continues to exist in Sharia' product standardization at an international level, whereby a Sharia'-compliant product in one jurisdiction may not necessarily be accepted as being Sharia'-compliant in another. At an institutional level, each Islamic bank has its own Sharia' board or committee that has to approve any new contracts or instruments. Therefore, the same Sharia' product approved by one IFI may be rejected by another. Several initiatives have been taken to standardize Islamic contracts used around the world, including through the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and The International Islamic Financial Market (IIFM), however, there are still major differences in how Sharia' contracts are structured in the Gulf Cooperation Council (GCC) region for example, and Malaysia, which eventually need to be overcome.

Another limitation on IFIs in managing liquidity is the internationalization of Islamic Banking. Islamic Banking is still too regionally and locally focused and therefore there are local pools of liquidity or illiquidity. There is a need to have a stronger form of cross-border liquidity management agreements among the different financial centres.

While central banks in a number of jurisdictions have standardized some of the Sharia' product structures, a variance continues to exist in Sharia' product standardization at an international level, whereby a Sharia'-compliant product in one jurisdiction may not necessarily be accepted as being Sharia'-compliant in another

The creation of the IILM was a major step in this regard. Additional steps need to be taken to close the wide gap. Having a truly global/regional Islamic bank could help to address some of the imbalances seen in the industry, especially as several large Islamic banks have rapidly been increasing their geographic coverage and potentially seek to address some of the liquidity challenges cited.

Funding the infrastructure needs of the Organization of Islamic Countries (OIC) is another key challenge being presented to the Islamic finance industry. For most of the OIC oil-exporting countries, the fall in oil prices is likely to result in a budget deficit. According to IMF (International Monetary Fund) forecasts expenditure in many OIC countries will exceed revenue and governments will have to seek ways to finance these fiscal deficits. Deloitte analysis undertaken earlier this year reported that the 32 member countries of the Asian Development Bank (ADB) are expected to need US$8.22 trillion as infrastructure investments, or US$747.5 billion annually–the biggest investment needs being in East and South East Asia. Electricity and transport make up the largest components of total infrastructure investment needs in Asia, US$4 trillion and US$2.8 trillion respectively between 2010–2020.

Can an Islamic Megabank help address these challenges?

In order to take Islamic Banking to the next level of growth, there is a need for a large Islamic bank, a Megabank, that will aspire to address each of these challenges with a broader goal to support the growth of Islamic Banking throughout the world and partner with other institutions such as Islamic Banks, Financial Institutions, Multilateral Organizations, Central Banks and OIC Member Countries to achieve the overall goal of creating harmony and cooperation among institutions. A Megabank may very well be a catalyst, in effect acting as a superior body that will connect the various industry players to address these challenges.

Funding remains a challenge as in most countries, Islamic Banking remains fragmented with several small to medium size players and less than a handful of large ones. Due to the lack of size and expertise, most Islamic banks have limitations on accepting large financing deals or being the lead book-runner and underwriter for syndicated financing deals. A majority of the lead book-runners and underwriters for syndicated Islamic financing deals are conventional banks in the Middle East North Africa (MENA) region. Only 4 out of the 10 largest EMEA (Europe Middle East and Africa) Islamic loans mandated arrangers are Islamic banks. A Megabank can have the capital base and capacity to become the lead arranger in large financial transactions.

Moreover, Sukuk has been used as an important instrument for funding in countries such as Malaysia and Saudi Arabia but its use remains concentrated in a few countries. Despite the massive amounts of investment required for developing Asian economies, the total amount of infrastructure Sukuk issues were less than US$11 billion by Q3 2014 – the majority of these issues were done by Malaysia with 66 percent of total Sukuk issuance in this category. A Megabank can promote Sukuk liquidity through primary Sukuk issuance with varying ratings and tenures as well as promoting secondary Sukuk markets.

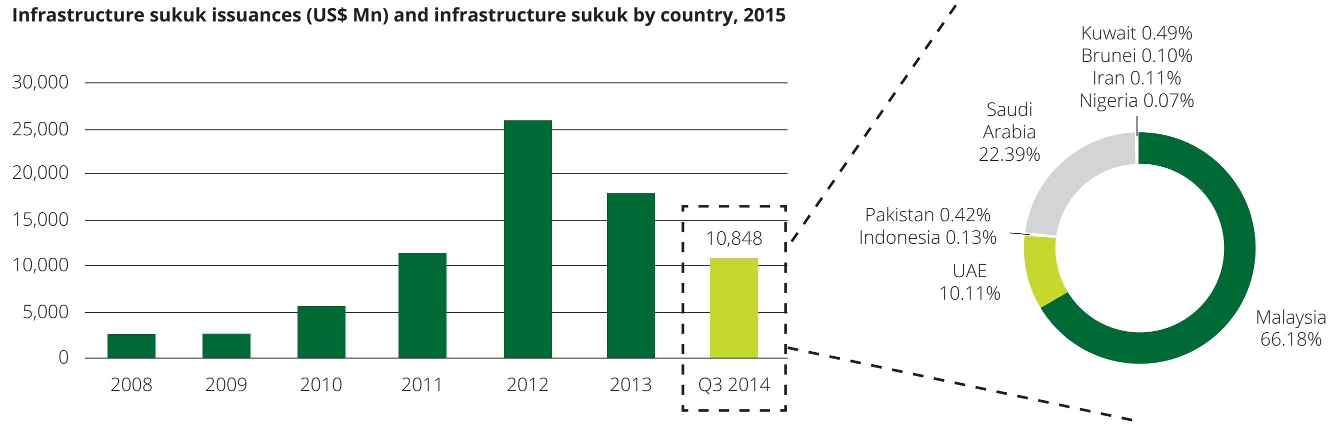
Lack of market makers with a strong capital backing has limited the growth of the secondary markets in the Islamic Banking markets, especially in the largest product groups such as Sukuk. Over the last few years, the demand for Sukuk has increased, with most investors using it to place their liquidity for the longer term, and many investors holding Sukuk to maturity. However, despite initiatives by several countries, the Sukuk market has remained mostly illiquid and is characterized by low trading volumes in comparison to conventional bonds. A Megabank with sufficient capital will be able to increase liquidity in Islamic

A Megabank may very well be a catalyst, in effect acting as a superior body that will connect the various industry players to address these challenges

financial markets by warehousing and trading in Sukuk. The bank with an ability to regularly quote bid-offer prices for each instrument will create a dynamic trading environment and encourage and facilitate secondary market trading.

A Megabank can also address the liquidity challenges through developing an interbank. Unlike conventional banking, Islamic Banking interbank transactions to manage liquidity cannot be done through commonly used conventional money market instruments or interest-bearing loans. Instead, Islamic Banks undertake interbank transactions to manage liquidity through Sharia'-compliant contracts such as Murabaha, Wakala and Mudaraba. This lack of an efficient interbank market may primarily

Infrastructure sukuk issuances (US$ Mn) and infrastructure sukuk by country, 2015



be attributed to a shortage of tradable instruments compliant with Islamic Banking standards, absence of a platform where instruments can be easily traded and relatively low levels of return compared to conventional instruments. The absence of an interbank market that acts as a platform for these products has reduced the efficiency and effectiveness of Islamic banks.

Establishing a Megabank will also provide a platform towards developing widely accepted, standardized Sharia' contracts, which will in turn improve the efficiency of the Islamic Banking Industry. Several Islamic countries have set up Sharia' boards, which act as the highest Sharia' authority in the country, and have the power to approve or reject usage of Islamic instruments based on their research and study in Sharia'. In other countries, this function is embedded into the remit of the Central Bank, and is part of the Central Bank's regulatory functions. A Megabank can act as a common platform to liaise with these boards in order to seek collective and universal approval for Sharia'-compliant instruments.

Summary

There is a clear supply and demand gap in the availability of Islamic financing, both in terms of value of financing available and tradable secondary market Sukuk. Commercial institutions could certainly size up and address some of the issues identified, though probably not all. Having enough capital to underwrite large-scale infrastructure projects, having widely acceptable standardized contracts and being able to warehouse and trade Sukuk with a view to growing the industry, not just maximizing profits, lead us to the conclusion that the Megabank should not be a commercial institution, but should follow the model and path of other multilateral institutions we see around the world.

The path for growth to surpass US$3 trillion by 2020 is already known but the larger opportunity for the industry would be to double again between 2020 and 2025 in the knowledge that demand is definitely there. While the formation of Megabanks with wide ranging remits would be a real game changer to make US$6 trillion by 2025 a realistic ambition for the Islamic finance industry, it should be noted that there also needs to be a political will and national level regulations to embrace such institutions in the respective jurisdictions.

by **Abid Shakeel**, Partner, Financial Services, Consulting, Deloitte, Middle East

A Megabank with sufficient capital will be able to increase liquidity in Islamic financial markets by warehousing and trading in Sukuk. The bank with an ability to regularly quote bid-offer prices for each instrument will create a dynamic trading environment and encourage and facilitate secondary market trading.

Test. Plan. Train. Repeat.

Nationalization of the Saudi workforce in 2017

The year 2016 could well be remembered as the year the Kingdom of Saudi Arabia's long-term ambition to localize its workforce really gathered momentum. More structure, definition and intent are now giving this 30 year-old vision solid grounding.

NITAQAT

In June 2011 the Nitaqat initiative was first announced. Nitaqat ("band" or "zones") sets targets for all KSA registered entities to meet in terms of the number of Saudi National employees they are mandated to employ (see chart below.) The percentage of Saudi Nationals to be employed varies by industry sector and size of entity. Companies are also ranked and placed in color bands/zones according to how they are performing in terms of Saudi national hiring. Companies rated as Platinum, High Green and Medium Green are performing well and more importantly are compliant with Nitaqat, while companies rated as Red, Yellow and Low Green do not have enough Saudi national employees, are non-compliant and are subject to a number of penalties imposed by the Ministry of Labor.

Within the last 6-9 months the Kingdom has implemented a number of policies all with the common goal to protect the local Saudi workforce. Collectively these initiatives place a strong obligation on all Saudi Arabian employers to hire, retain and develop their local Saudi talent.

In 2016 alone, the following policies were announced and are expected to be fully implemented by the end of the year, with penalties applied for employers who fail to comply:

- **March 2016:** Nationalization of the telecommunications sector comes into effect, making certain roles (e.g. all sales and maintenance roles pertaining to telecommunications) available to Saudi nationals only.
- **April 2016:** Regulations issued that provide guidance on the requirement for Saudi employers to provide training to their local Saudi workforce.
- **May 2016:** Expatriate engineers will be required to pass a competency-based assessment before being granted a Saudi work and residency (Iqama) permits. They will also be required to demonstrate at least three years' relevant experience, thereby indirectly restricting junior roles to Saudi nationals only.
- **July 2016:** The Ministry of Labor announced that adjustments will be made to the existing Nitaqat model, with additional factors contributing to a company's overall Nitaqat rating. This weighted Nitaqat initiative is expected to be introduced by the end of 2016. In addition to the total number of Saudi nationals employed by a company, Nitaqat ratings will also depend on the following factors; the number of Saudi females employed, the salary amounts paid to Saudi Nationals, the number of Saudi Nationals in senior roles and the length of service of the Saudi employees.
- **August 2016:** Labor market testing (via Taqaat online portal) before the hiring of foreign nationals becomes obligatory.

It is the most recent of these initiatives that is perhaps the most interesting and warrants closer examination when ascertaining what further obligations Saudi employers will be required to comply with.

Labor market testing

Employers within the Kingdom who are looking to hire foreign national employees must first perform a labor market test to demonstrate to the Ministry of Labor in KSA that no suitable local Saudi national candidate is available to take a particular position.
An online portal called Taqaat has been launched to facilitate this requirement. Taqaat will act as an online database where Saudi employers must advertize all forthcoming roles within their organization. Employers will be obliged to keep records of all the positions advertized, and of the Saudi national applicants who were considered for those positions. Where a local Saudi applicant is deemed unsuitable for a position, the employer will be required to provide justification for the decision.

Activity	Size	Number of workers		Red		Yellow		Low green		Medium green		High green		Platinum	
		From	To	From	To	From	To	From	To	From	To	From	To	From	To
Retail trade	Small	10	49	0	4	5	9	10	20	21	23	24	26	27	100
	Middle	50	499	0	4	5	16	17	27	28	30	31	33	34	100
	Large	500	2999	0	9	10	23	24	30	31	32	33	34	35	100
	X-Large	3000+		0	9	10	24	25	32	33	34	35	36	37	100

Employers will only be able to proceed with an application for a new expatriate hire after it has been established that the role in question cannot be filled by a local Saudi national. This requirement is not designed to impact foreign nationals already present and working in Saudi Arabia who seek to transfer to a new employer within the kingdom.

Compliance

The formal introduction of a labor market test, along with the aforementioned other measures, has placed many Saudi Arabian-based companies under pressure to adapt and conform quickly to an evolving compliance landscape.

For example, the announcement in March 2016 that the telecommunications sector was to become completely Saudized by September of this year, required employers in this sector to quickly find and recruit Saudi nationals to fill roles that had previously been held by expatriates. This exercise has proved challenging for several organizations, who have had to consider how they can meet the requirements of the authorities while maintaining continuity of business.

Succession planning

Saudi Arabian Labor Law (23/8/1426H) requires any company with 50 or more employees to provide annual training to at least 12 percent of its Saudi national workforce and plan succession paths for Saudi employees to eventually replace their foreign counterparts. The amendments to the Labor Law that came into force in October 2015, and more recent implementing regulations issued in April 2016, have provided additional guidance to employers operating within the Kingdom with respect to their obligations in this regard. It is anticipated that this rule, although technically already in force, will be enforced with greater rigor from the start of the Islamic New Year (expected 2 October 2016.)

The detail on the type of training to be provided–the content and the duration of any schemes implemented–has so far been left at the employer's discretion with the following guidelines:

- **Standards -** The standard of training must comply with the recognized standards of any relevant body such as the Saudi Council of Engineers or Saudi Arabian Monetary Agency.
- **Diverse programming –** Training must include all strata of an organization, from the administration through to senior management.
- **Assessment –** Competency-based testing must be carried out to gauge employee performance as well as their future needs.
- **Attainment -** Certification should be issued detailing the training course(s) taken and the level of competency attained.

The drive and focus for many employers in the Kingdom is likely to shift away from recruitment, and further towards research, development and investment in training the existing local Saudi workforce

Coupled with this duty to formulate a training regimen within the workplace, employers will also have a duty to report annually to the Ministry of Labor (MoL) on the effectiveness of any training program and/or succession planning initiatives. The MoL will review the training methods implemented and the certifications issued. The MoL will also consider the effectiveness of the programs used. The effectiveness of any program will be evaluated essentially in terms of whether it facilitates the continual development of Saudi national employees in the workplace.

The future

Further Saudization initiatives are also expected to come into effect early in the New Year (Gregorian.) Industry sectors that are expected to be impacted include the automotive and information technology (IT) sectors. The exact form of the changes is unknown but is likely to involve certain departments (within the companies that operate in these sectors) becoming completely Saudized akin to the sales departments within telecommunications companies (see above.)

Article 37 of the Labor Law stipulates that all non-Saudi employees must be engaged on fixed-term contracts. To this end, it is also expected that in due course the renewal of these fixed term employment contracts for expatriates will only be granted on the proviso that no suitable Saudi national has been trained to the requisite level needed to replace the expatriate employee. This type of eligibility assessment for the renewal of a work permit could become more prevalent in the coming months.

Companies within the Kingdom that do adapt to the increasing demands to nationalize the workforce are aware that further protectionist measures will be introduced in the near future. With this in mind the drive and focus for many employers in the Kingdom is likely to shift away from recruitment, and further towards research, development and investment in training the existing local Saudi workforce with the reasonable expectation that a foreign national employee may have to be replaced by a Saudi national in the future.

by **Amir Mayo**, Senior Manager, Global Employer Services, Tax, Deloitte, Middle East

The healing touch

Medical tourism in the UAE

Rising healthcare costs and lack of access to medical facilities are forcing the modern consumer to look for alternatives beyond borders to service their medical needs. Globalization and the internet have fueled the growth of medical tourists across the world. The United Arab Emirates (UAE), with Dubai as lead pole bearer, is poised to reap the benefits of this boom due to the quality of its healthcare facilities, skilled professionals, excellent infrastructure, government initiatives and strategic location.

The cost of a coronary artery bypass surgery in the United States can set a patient back US$55,000 as compared to a cost of US$27,000 for the same procedure in the UAE, and only US$3,200 in India. Depending on the procedure and the location, patients can expect to save anywhere from 50–90 percent on the original costs.

Rising healthcare costs and lack of access to medical facilities are forcing the modern consumer to look for alternatives beyond borders to service their medical needs. Globalization and the internet have fueled the growth of medical tourists across the world. The United Arab Emirates (UAE), with Dubai as lead pole bearer, is poised to reap the benefits of this boom due to the quality of its healthcare facilities, skilled professionals, excellent infrastructure, government initiatives and strategic location.

What is medical tourism?

Medical tourists are people traveling to other countries to seek various medical treatments that may be beyond their reach in their own country. Traditionally, patients travelled from developing countries to developed countries such as Switzerland and the United States in search of advanced medical facilities. Currently the trend has been reversed as people are travelling to developing countries in search of cost-effective or immediate medical solutions. An increasing number of countries are marketing themselves as medical tourist destinations, with various specializations to choose from.

Patients traveling overseas seek high quality medical facilities and access of care, but the most common reason is cost. The cost of a coronary artery bypass surgery in the United States can set a patient back US$55,000 as compared to a cost of US$27,000 for the same procedure in the UAE, and only US$3,200 in India. Depending on the procedure and the location, patients can expect to save anywhere from 50–90 percent on the original costs.

Main drivers in the popularity of medical tourism :

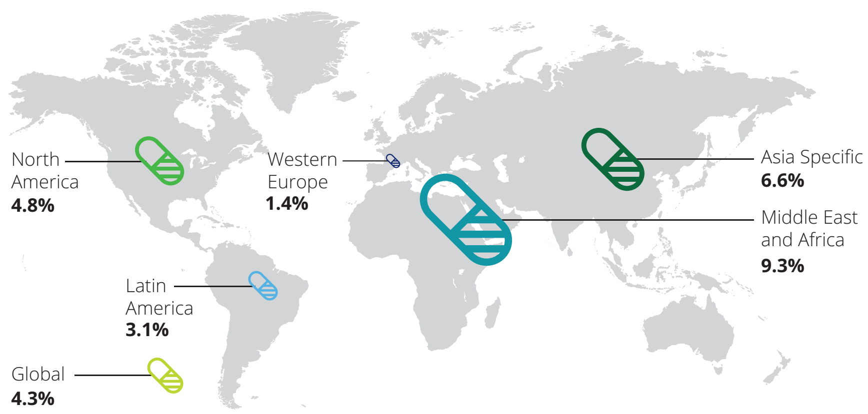
Another important factor in driving the growth of medical tourism is the significantly long waiting periods in various countries for necessary medical treatments. In fact, even government healthcare authorities in western countries are offering patients the choice to travel abroad for quicker access to medical care. Due to the increase in the connectivity of airlines and reduction in travel costs, patients are more willing to travel across the globe. Advancements in technology and globalization of knowledge have also led to a marked improvement in the standards of healthcare provided in emerging markets.

The internet is another important factor in the growth of medical tourists, as patients can easily research the cost and quality of healthcare provided by various countries across the globe. A conscious consumer can choose the best location for the desired service, which has in turn led to the emergence of specialization in certain destinations.

The UAE has high potential to become a hub for medical tourism due to its excellent infrastructure, availability of skilled professionals, government support and strategic location

The Economist Intelligence Unit (EIU) has projected that global healthcare spending is expected to accelerate by an average of 4.3 percent during 2015-2019, mainly fueled by the emerging markets in Asia and the Middle East. There were over 6 million medical tourists in 2015, a figure that is projected to rise to almost 10 million by 2020.

Medical tourism



Source: EIU

The UAE as a medical tourism hub

The UAE has high potential to become a hub for medical tourism due to its excellent infrastructure, availability of skilled professionals, government support and strategic location. Since the UAE is one of the most popular tourist destinations of the world, it can attract and appeal to the whole family. The Medical Tourism Index has ranked the country as the 16th preferred destination for medical tourism, and the UAE aims to reach the top five in the near future. The UAE has an efficient infrastructure in place for medical tourists as it is very well connected through its national airlines and is well known for its hospitality services.

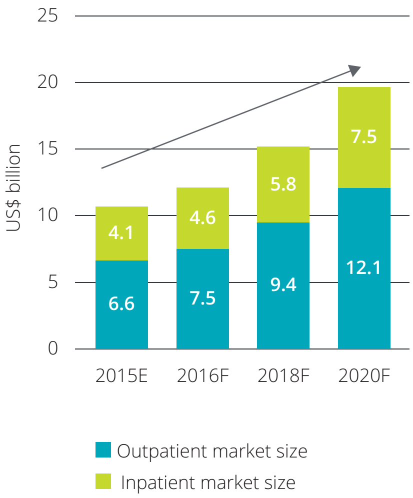
According to the Dubai Health Authority, the emirate attracted 260,000 medical tourists in the first half of 2015, which is projected to rise to 500,000 by 2020, injecting revenues of around US$700 million into the economy. A report by the DSC (Dubai Statistics Center) has revealed that the majority of the tourists who visited Dubai for medical treatment in 2015 came from Asian countries (43 percent), while 29 percent came from the Gulf Cooperation Council (GCC) countries. The most popular treatments sought by the tourists were for osteoporosis, fertility, dermatology and plastic surgery.

Medical tourism in the UAE is poised to become one of the highest growing markets due to the following factors:

Growth potential

The UAE healthcare market is projected to grow at an average annual growth rate of seven percent (7%) between 2015 and 2020 to reach a market value of US$19.5 billion, as per the *UAE Healthcare Sector Outlook 2020*. Healthcare tourists in Dubai can choose from over 30,000 healthcare professionals spread among 3,000 facilities. By 2020 these numbers are expected to grow to 40,000 healthcare professionals and 4,000 facilities. Some of the largest healthcare providers in the UAE, such as Aster DM Healthcare and NMC Health, have

UAE healthcare forecast



UAE private sector beds

2,076 beds
in 2008

2,566 beds
in 2011

5,188 beds
in 2020

recently announced large expansion plans, opening new hospitals and medical centers.

Quality of healthcare providers

The Ministry of Health and Prevention in the UAE has said that over one hundred of its healthcare facilities have earned the Gold Seal Approval by JCI (Joint Commission International.) Government hospitals have played an important role in creating the necessary facilities and standards to develop medical tourism. However in the past few years, it is the private sector that has emerged as a driver in revamping and improving the excellence and standards of healthcare in the UAE. The healthcare industry has also been able to attract the best doctors, nurses and other professionals of different nationalities, making this region highly competitive in its standards of care.

Government initiative

The Dubai government has launched the world's first comprehensive electronic medical tourism portal, as part of their medical tourism strategy. The portal promises to provide medical packages and travel and hospitality services at the click of a button. This is part of the initiative by which the UAE government is striving to connect healthcare providers with their airline partners, hotel operations and other agencies in order to provide a cost-effective comprehensive service package for patients. The UAE government has penciled the growth of the healthcare sectors as of one the pillars of its diversification and growth strategy, subsequent to the reduction in the revenue from the energy sector.

Impact of medical tourism on the economy

Medical tourism has the potential to have a positive impact on various other industries as well, leading to an

The UAE government has penciled the growth of the healthcare sectors as of one the pillars of its diversification and growth strategy, subsequent to the reduction in the revenue from the energy sector

incremental growth in the Gross Domestic Product (GDP) of the economy as whole. An average medical tourist travelling to the UAE would procure airline and hotel services, travel to tourist destinations and purchase goods and services from local retailers. Therefore, various other industries can benefit from the influx of these tourists to the country, and it is not limited to the healthcare sector. The hospitality industry has already jumped on the bandwagon, by aligning itself with healthcare providers to include its services within the medical packages.

The rising demand for medical tourism has opened doors to another service industry called intermediaries that connect potential medical tourists with hospitals and other organizations. Companies that focus on medical tourism typically provide nurses or case managers to assist patients with pre-travel and post-travel medical concerns. *Salamatak*, for example, serves to connect medical tourists from abroad with practitioners in Dubai and provide comprehensive services during and after their stay. "In the past, usually patients had to go online and search for a doctor and it took a month or two," said medical tourism facilitator Samer Mazahreh. "Now, within two days, medical tourists get a free medical consultation, there is price transparency, and they have someone to book their flights, their tickets, their accommodation, their airport pick-up, to go with them to the doctors and translate," he added.

Medical tourism

Going forward

The UAE has already positioned itself as one of the most visited countries in the world due to its strategic location and award-winning airlines. All the other factors mentioned above make the UAE, and Dubai in particular, an attractive medical tourist destination, as long as the healthcare industry continues to invest heavily in expanding and improving the quality of its services. Going forward, to achieve the strategic plans and the economic vision of the UAE government, the healthcare industry should strive for the following:

- More cost-effective medical packages, as they are still high relative to other emerging markets.
- Attracting and retaining the best professionals and fostering an innovative environment.
- Digital media–attracting patients around the globe through social media platforms.
- Investing in the expansion of healthcare facilities.
- More collaboration with other industries such as hospitality, governments, tourism, to provide comprehensive packages.
- Attracting GCC patients who spend large amounts on seeking healthcare abroad.

The UAE has already positioned itself as one of the most visited countries in the world due to its strategic location and award-winning airlines. All the other factors mentioned above make the UAE, and Dubai in particular, an attractive medical tourist destination, as long as the healthcare industry continues to invest heavily in expanding and improving the quality of its services.

Conclusion

There will be challenges ahead for the UAE Medical Tourism industry, but the potential is bright. In order to bring this vision to reality, the UAE government and the private healthcare groups need to work together harmoniously in seeking to attract larger number of patients to generate significant revenues. The UAE should continue developing and promoting its healthcare services in the GCC and abroad in the same way it has successfully developed and promoted itself as a top tourist destination. The backing of an ambitious government and continued investments from the private sector can go a long way towards realizing the dream of being one of the top five medical tourism destinations in the world.

By **Sachin Singhal**, Principal, Audit, and **Manish Gourisaria**, Senior Manager, Audit, Deloitte, Middle East

Sources

1. 2016 Global Healthcare Outlook: Battling costs while improving care - Deloitte Touche Tohmatsu Services, Inc.
2. Medical Tourism: Treatments, Markets and Health Systems Implications – Neil Lunt, Richard Smith, Mark Exworthy, Stephen T Green, Daniel Horsfall and Russell Mannion
3. Arab Health: UAE group eyes 7 new hospitals, growth for budget brand – Bindu Rai – Emirates 24/7
4. Why is Medical Tourism Booming in the UAE – www.bayzat.com
5. Dubai launches world's first medical tourism portal – Suchitra Bajpai Chaudhry - Gulf News
6. Medical visa to be made easier... Dubai Medical Tourist Stats – Staff – Emirates 24/7
7. The Rise of Medical Tourism by Dr. Raza Siddiqui

1+1=3

Maximizing value within a family business

As leadership within family businesses transitions to the next generation, there is a renewed focus on maximizing and enhancing the family's wealth.

A common perception among family businesses is that capital–or value–can be adequately measured by reference to accounting measures such as shareholder equity (book value) or total funds invested

Our research has shown that one of the most significant challenges now facing family businesses is how to maintain the balance between business goals (such as growth) and family goals (such as maintaining family values and protecting the family wealth.) The challenge is magnified with the development and globalization of financial markets, which has increased the accessibility, and in turn, the opportunity as well as the risk.

A key factor that drives value within family businesses is the ongoing effective allocation of capital across asset types and sectors as markets transition over time. This is a common oversight in many family businesses across the region. In order to maximize value, it is essential to assess where the capital of the group is allocated, and following that, manage and monitor that capital over time. Where is the family business exposed? Where is it over exposed? Is the business positioned to capture the next cyclical trends?

But how do you assess where capital within the family business is allocated?

A common perception among family businesses is that capital–or value–can be adequately measured by reference to accounting measures such as shareholder equity (book value) or total funds invested. In simple terms, book value equals the total reported assets of the group less its total liabilities. This measure therefore provides a historical perspective and more likely reflects what shareholders would receive if the group were to be liquidated in an orderly manner, rather than the value attributed to its future earning power as a going concern. Future earnings (and therefore value) will be influenced by its brand, contracts in hand, relationships with its customers, competitive positioning, and goodwill, among other factors–all of which may not be captured in a book value measure. As such, in most instances book value materially underestimates the value of the family business and any capital allocation decision based on this measure is likely to be misleading.

Family businesses are typically characterized by one (or several) core operating businesses, together with other investments that have been added over time as the group's wealth has accumulated. When assessing the real value within a family business, a "sum of parts" approach is typically applied whereby each business and investment is valued separately with the objective to reflect what a third party would trade each single asset at having regard to its risk and growth characteristics. The individual parts are assessed using common valuation methodologies (such as discounted cash flows, market multiples, etc.) with the results aggregated to the total value of the group (adjusted for any centralized costs or non-operating items.)

Given their inherent nature, assessing the value of a diverse and complex conglomerate does pose many additional challenges as compared to a standard valuation that needs to be considered, including, but not limited to:

1. Assessing a target/optimal capital structure for each business and group given the willingness of family businesses to take on debt historically;
2. The relationship between the businesses within the group (e.g. related party trading), as well as intercompany funding. How should these be treated if one were to assess value from a third party perspective?

3. Whether the consolidated value of the 'parts' reflects what may be achieved in a sale to a third party of the group on a stand-alone basis. Should an additional premium or discount be applied to the consolidated value in recognition of the business structure, track record, or other factor?

Measuring value within a family business has taken on a renewed level of importance as leadership transitions to the next generation. Excess returns are largely driven by the effective allocation and management of capital over time, particularly amid market and financial developments.

Accurately measuring value (real worth) and where it is allocated across various categories allows shareholders to better analyze their portfolio against the overall strategy and other benchmarks. It is the regular management and monitoring of that capital that is paramount to ensure the capital is efficiently utilized and returns are maximized. While there is an abundance of metrics and factors that may be monitored over time, it is important that these be tailored to the group based on its specific strategy, operations and characteristics. From a financial perspective, attributes that are assessed and monitored to ensure value is maximized within a family business may include:

- **Return attributes:** The measure of return over time and how that compares to appropriately suited benchmarks. The drivers of return are also monitored by reference to the particular investments, industry and how these may be dissected between capital growth vs. income (i.e. dividend.)
- **Risk attributes:** Monitoring and managing risk within the portfolio and/or certain investments with reference to factors such as budgeting accuracy, level of financial leverage, ability to fund commitments and the relative risk between business segments (i.e. degree of diversification.)
- **Performance attribution:** Measuring actual and relative performance of the portfolio and investments (or groups) using financial metrics such as returns on equity and invested capital. Assessing the return on capital relative to the cost of the capital deployed is an important test on whether value is being created.
- **Liquidity and cash management:** Consideration of the group's liquidity position is also important to assess the ability of the group to fund growth opportunities, pay dividends and manage exit strategies.

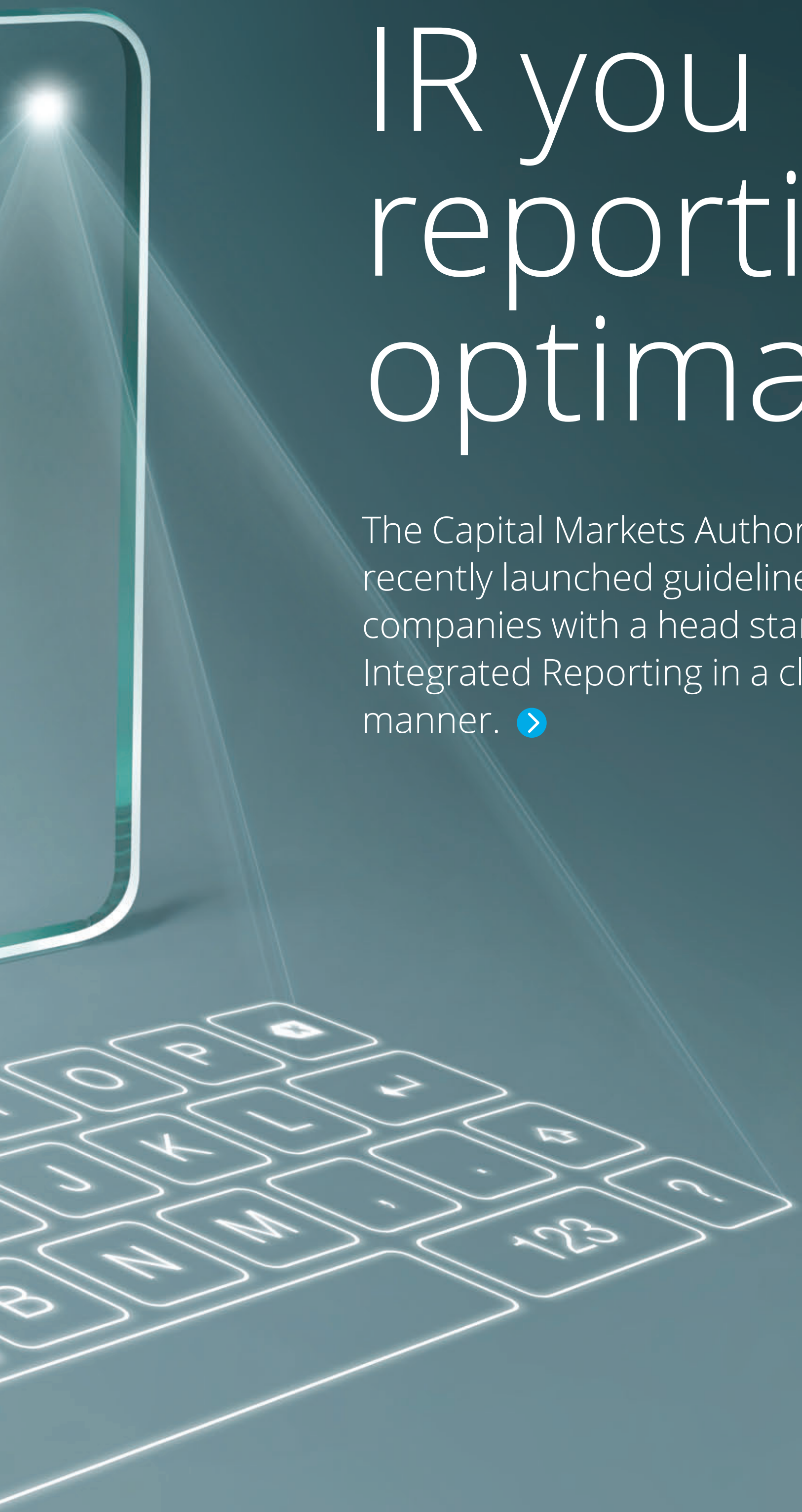
Given the typical structure of a family business, each of the above can be analyzed at a portfolio level, and/or by various sub-segments such as core versus non-core, by asset class, industry, geography or maturity.

An effective method of presenting such attributes to senior stakeholders is via "scorecards" or "dashboards," whereby these factors are measured and then regularly tracked against historical performance, suitable market benchmarks, and internal targets. These dashboards would then allow decision-makers to promptly identify any deviations over time and then take the necessary action, be it a focused effort on the improvement on existing assets, rebalancing the portfolio (through acquisitions and divestures) or simply adapting the overall strategy.

Measuring value within a family business has taken on a renewed level of importance as leadership transitions to the next generation. Excess returns are largely driven by the effective allocation and management of capital over time, particularly amid market and financial developments. The family business' capital (real wealth) should be appropriately measured using standard valuation methodologies typically based on a sum of the parts approach, and then analyzed against the existing strategy. Regularly monitoring the allocation of value and tailored key performance metrics over time provides shareholders an active way to adapt to market trends and drive the overall value of the group and wealth of the family.

by **Scott Whalan**, Director, Valuations, Deloitte Corporate Finance Limited, Middle East


12:54pm
Text_
Q
W
E
R
T
Y
U
A
S
D
F
G
H
Z
X
C
V
123



IR you reporting optimally?

The Capital Markets Authority (CMA) in Kuwait recently launched guidelines that provide listed companies with a head start for driving Integrated Reporting in a clear and concise manner.

The corporate landscape has been evolving ever since the economic crisis that brought to surface that financial reporting alone will not provide enough insight to satisfy investor and stakeholder concern. IR can be an effective tool for instilling long-term value creation of a company.

According to Chapters 11 and 12 of the 15th Rulebook, companies are required to either comply with the provisions of adopting Integrated Reporting (IR), or explain to investors in their next governance report why they have not done so.[1] Globally IR, which has gained significant attention over the last decade, is mostly being adopted on a voluntary basis. The following briefly outlines what IR entails and how beneficial it can be for companies to navigate through a transition from traditional financial reporting to an integrated reporting system.

What is integrated reporting?

To date, there is not one agreed upon definition for IR but the CMA does provide some guidance and overview for companies to start reporting in an integrated way:

In chapter 11, article 8 of Rulebook 15, the CMA refers to IR "as an effective tool for achieving strategic goals of the company and hence to create corporate values [..] as this will assist members of the board of directors and executive management to take decisions in a practical and proper manner, imminently leading to achievement of shareholders' interest." Additionally, this would provide the stakeholders visibility on the company's aspirations and plans for the future.

Further, the CMA has issued a set of guiding principles to substantiate the creation of an integrated report as "a minimum of important characteristics":

1. The company's focus on strategy;
2. General overview on the company structure and business model;
3. Risks facing the company;
4. Future expectations and directions;
5. Conciseness, accuracy, and tangibility in presenting information;
6. Regularity of the reports.

The corporate landscape has been evolving ever since the economic crisis that brought to surface that financial reporting alone will not provide enough insight to satisfy investor and stakeholder concern. IR can be an effective tool for instilling long-term value creation of a company. This direction focuses on driving a more comprehensive and meaningful way of reporting about all aspects of an organization's performance and future potential for internal and external stakeholders. Not only does it integrate financial aspects of performance with sustainability aspects, it also recommends forward-looking elements to reporting as well as the reporting of historical performance.

In other words, IR aims to help organizations improve shareholder value by developing successful and enduring relationships with its customers, employers, suppliers and the communities in which they operate. Apart from financial and manufactured capital, businesses these days depend on broader sets of relationships, so-called "capitals" in the IR terminology, that include intellectual, human, social and natural capitals. It is a process of thinking through your business and aligning your organization's strategy and business model for long-term sustainable value creation.[2]

Why is it important?

IR helps organizations to tackle the specific concerns of long-term investors by providing material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context in which it operates. Consequently, it leads to a clear and concise articulation of the company's value creation story, which reports to a wider stakeholder group that may have an interest in the company or society at large.

Not only does IR focus on financial performance of an organization but also on a broader spectrum taking into account social, environmental and economic elements. Organizations that adopt IR tend to have a more holistic decision-making approach that leads to more financial stability and sustainability of the business in the long run.

There is a multitude of benefits associated with integrated reporting– both within an organization and from an external perspective:[3]

- Encouraging the organization to think in an integrated way;
- Clearer articulation of strategy and business model;
- A single report that is easy to access, clear and concise;
- Creating value for stakeholders through identification and measurement of non-financial factors;
- Linking of non-financial performance more directly to the business;
- Better identification of risk and opportunities;
- Improved internal processes leading to a better understanding of the business and improved decision-making process;
- Attracting long-term investments into an organization if IR or just IR principles are being adopted within the published reports.[4]

IR helps organizations to tackle the specific concerns of long-term investors by providing material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context in which it operates

Content elements of integrated reporting[5]

Organizational overview and external environment

What does the organization do and what are the circumstances under which it operates?

Governance

How does the organization's governance structure support its ability to create value in the short-, medium- and long-term?

Business model

What is the organization's business model?

Risks and opportunities

What are the specific risks and opportunities that affect the organization's ability to create value over the short-, medium- and long-term and how is the organization dealing with them?

Strategy and resource allocation

Where does the organization want to go and how does it intend to get there?

Performance

To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects of capitals?

Outlook

What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications on its business model and future performance?

Basis of preparation and presentation

How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Integrated reporting guiding principles[5]

Strategic focus and future orientation

An integrated should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short-, medium- and long-term, and to its use of, and effects on, the capital.

Connectivity of information

An integrated report should show a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect the organization's ability to create value over time.

Stakeholder relationships

An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account, and responds to their legitimate needs and interests.

Materiality

An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short-, medium- and long-term.

Conciseness

An integrated report should be concise.

Reliability and completeness

An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.

Consistency and comparability

The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

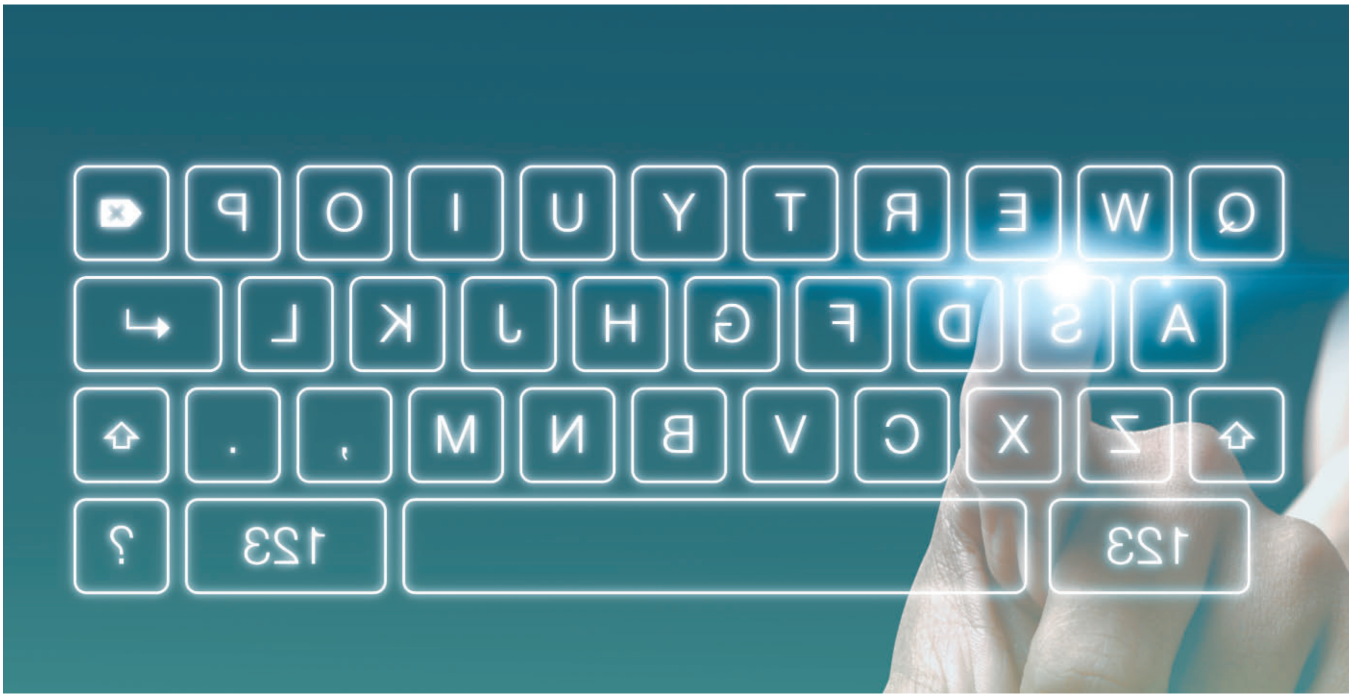
Looking ahead in the region

In the Middle East stakeholders are becoming increasingly aware of the need for sustainability and are growing ever more concerned about the non-financial impacts that organizations have on the societies and economies in which they operate. Add to this the swift and expansive development in the region that has made the issue of sustainability more essential than ever. Key drivers of sustainability in the region include corporate social responsibility policies, energy efficiency and regulatory compliance.

Many regional governments such as the UAE and Qatar have developed short- and long-term national visions with sustainability as a key pillar critical to their success. They include introducing sustainability regulations, promoting the use of renewable energy and green technology, promoting social development, economic diversification and reducing dependence on the oil and gas industry.

The number of sustainability reports published by organizations in the region have significantly grown on a yearly basis

In the Middle East stakeholders are becoming increasingly aware of the need for sustainability and are growing ever more concerned about the non-financial impacts that organizations have on the societies and economies in which they operate



since 2010. Certain organizations in the region have slowly moved toward integrated reporting over the past couple of years. These include organizations from diverse sectors including transport, oil and gas, healthcare and financial services. Moreover, there are now national reporting frameworks/guidelines such as the UAE's Estidama and Qatar's Sustainability Development Industry Reporting (SDIR.)

In short, IR is expected to bring enormous benefits both, internally and externally to an organization. Internally, IR is likely to improve conversations between the board and management, better decision-making through the early breakdown of silos and increasing respect and understanding between departments. Additionally, a broader perspective on how organizations create value subsequently leads to changes in strategy, resource allocation and management systems.

Externally, IR is evidenced to have a strong impact on improving engagements with external stakeholders. Furthermore, understanding and articulating the connections between value created for organizations and value created for others is a particular challenge for nearly all organizations which leads organization to significantly change what they measure.

With all these dynamic developments in sustainability awareness and implementation, it is inevitable that we see a major increase in integrated reporting adopted and reports published in the region. Organizations that truly consider sustainability and the opinion of their stakeholders should aim to implement integrated reporting sooner rather than later.

By **Rami Wadie**, Partner, Risk Advisory, Corporate Governance leader, Deloitte, Middle East

Sources

1. Rule of 'comply or explain'- a requirement for a company to comply with a code of corporate governance or explain any non-compliance.
2. See "A Director's guide to Integrated Reporting," Deloitte LLP, page 1, 2015
3. See "Insights – Integrated Reporting," Deloitte UK, www2.deloitte.com/uk/en/pages/audit/articles/integrated-reporting.html
4. See George Serafeim, "Integrated reporting and investor clientele," Harvard Business School working paper, number 14-069, February 2014 (revised April 2014), hbs.edu.
5. "The International IR Framework", The International Integrated Reporting Council, December 2013

New thought leadership publications from Deloitte

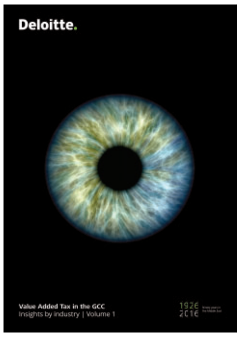
ME PoV provides you with a selection of Deloitte's most recent publications accessible on Deloitte.com

Consulting

Deloitte's Arabic Summary of International Public Sector Accounting Standards

Getting the balance right
A blueprint for gender balance in the Middle East private sector

Tax



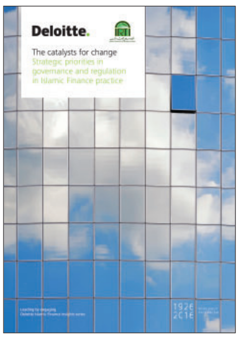
Value Added Tax in the GCC
Insights by industry
Volume 1

Diversity

View from the top
What business executives really think about women leaders in the GCC

Islamic Finance

Corporate Sukuk in Europe
Alternative financing for investment projects



The catalysts for change
Strategic priorities in governance and regulation in Islamic Finance practice

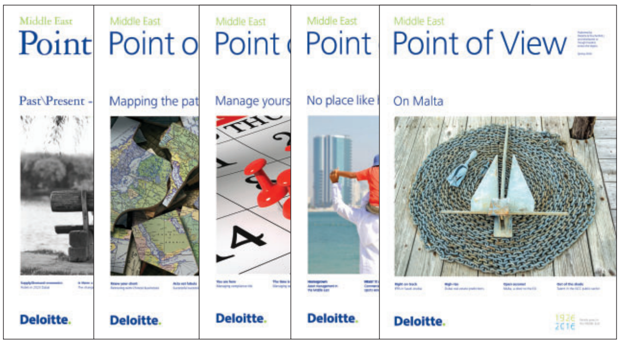
Financial Advisory

Construction Pulse Dubai
Market checks and balances in construction & real estate

Real Estate

Middle East Real Estate Predictions Dubai 2016

Middle East Point of View



www.deloitte.com/middleeast

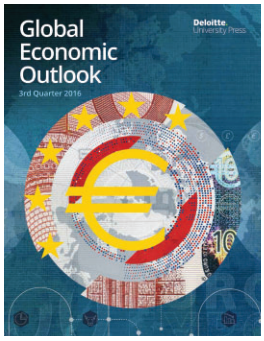
Deloitte Review

Risk Advisory

Beneath the surface of a cyberattack
A deeper look at business impacts

EMEA 360
Boardroom Survey
Agenda priorities across the region

Outlook



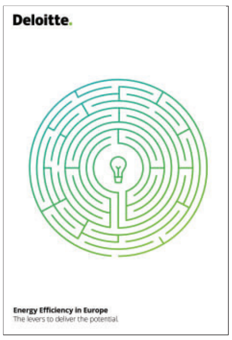
Global Economic Outlook
3rd Quarter 2016

Technology

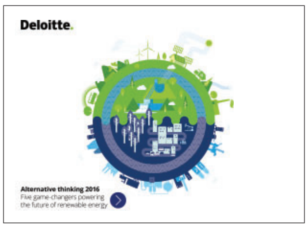
Tech Trends 2016
Innovating in the digital era

Energy and Resources

Global Human Capital Trends 2016
Energy and Resources (E&R) edition

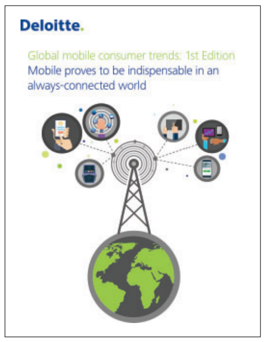


Energy Efficiency in Europe
The levers to deliver the potential



Alternative thinking 2016
Five game-changers powering the future of renewable energy

TMT



Global mobile consumer trends
First edition
Five global trends shaping mobile connectivity

Deloitte offices

Regional office
Gefinor Center, Block D
Clemenceau Street
P.O. Box 113-5144
Beirut, Lebanon
Phone +961 (0) 1 748 444
Fax +961 (0) 1 748 999

Consulting
Regional office
Deloitte & Touche (M.E.)
Building 3, Emaar Square
Downtown Dubai
P.O. Box 4254 Dubai,
United Arab Emirates
Phone +971 (0) 4 376 8888
Fax +971 (0) 4 376 8899

Risk Advisory
Regional office
Deloitte & Touche (M.E.)
Building 3, Emaar Square
Downtown Dubai
P.O. Box 4254 Dubai,
United Arab Emirates
Phone +971 (0) 4 376 8888
Fax +971 (0) 4 376 8899

Financial Advisory Services
Deloitte Corporate Finance Limited - Regional office
DIFC, Currency House
Building 1
P.O. Box 112865
Dubai, United Arab Emirates
Phone +971 (0) 4 506 4700
Fax +971 (0) 4 327 3637

Tax Services
Regional office
Currency House
Building 1
P.O. Box 282056
Dubai, United Arab Emirates
Phone +971 (0) 4 506 4700
Fax +971 (0) 4 327 3637

The Deloitte ME Islamic Finance Knowledge Center (IFKC)
Al Zamil Tower. Government Avenue,
Manama, Kingdom of Bahrain
Phone +973 (0) 1 721 4490
Ext 2018
Fax +973 (0) 1 721 4550

Quick links
deloitte.com/middleeast

Blog: deloittemiddleeast matters.com

Twitter: @DeloitteME
@DeloitteMEjobs

Facebook: Deloitte Middle East
Linkedin: Deloitte Middle East company profile

Bahrain
Manama
Al Zamil Tower
Government Avenue
P.O. Box 421
Manama, Kingdom of Bahrain
Phone +973 (0) 1 721 4490
Fax +973 (0) 1 721 4550

Egypt
Deloitte Saleh, Barsoum & Abdel Aziz
Cairo
Nile City South Tower – 10th floor
2005 A Cornish El Nile,
Ramlet Boulaq, Cairo, Egypt
Phone +20 (0) 2 246 199 09
Fax +20 (0) 2 246 199 04

Alexandria
Madinet El Sayadla
Building No 10,
Smouha, Alexandria
Phone +20 (0) 3 426 4975
Fax +20 (0) 3 426 4975

Iraq
Erbil
Vital Village, No. 42
Erbil, Iraq
Phone +964 (0) 66 257 6200

Jordan
Amman
Jabal Amman,
190 Zahran Street
P.O. Box 248
Amman 11118, Jordan
Phone +962 (0) 6 550 2200
Fax +962 (0) 6 550 2210

Kuwait
Deloitte & Touche Al-Wazzan & Co.
Kuwait City
Dar Al-Awadi Complex
Ahmed Al-Jaber Street, Sharq
P.O. Box 20174
Safat 13062, Kuwait
Phone +965 2240 8844
Fax +965 2240 8855

Lebanon
Beirut
Arabia House
131 Phoenicia Street
Ain Mreisseh, Beirut
P.O. Box 11-961
Riyadh El Solh, Lebanon
Phone +961 (0) 1 364 700
Fax +961 (0) 1 369 820

Libya
Tripoli
Tripoli Tower
P.O. Box 93645
Tripoli, Libya
Phone +218 (0) 92 370 1049

Malta
Deloitte Place
Mriehel Bypass
Mriehel BKR3000, Malta
Phone +356 2343 2000
Fax +356 2131 8196

Oman
Muscat
MBD Area
Muscat International Center
P.O. Box 258
Ruwi, Postal Code 112
Sultanate of Oman
Phone +968 (0) 2481 7775
Fax +968 (0) 2481 5581

Palestinian Territories
Ramallah
Al Mashreq, Insurance Building
P.O. Box 447
Ramallah, Palestinian Controlled Territories
Phone +970 (0) 2 295 4714
Fax +970 (0) 2 298 4703

Qatar
Doha
Al Ahli Bank Building
Sheikh Suhaim Bin Hamad Street
P.O. Box 431
Doha, Qatar
Phone +974 (0) 4434 1112
Fax +974 (0) 4442 2131

Saudi Arabia
Deloitte & Touche Bakr Abulkhair & Co.
Riyadh
Prince Turki Bin Abdullah Al-Saud Street
Sulaimania Area
P.O. Box 213
Riyadh 11411, Saudi Arabia
Phone +966 (0) 1 282 8400
Fax +966 (0) 1 282 8428

Al Khobar
ABT Building, Al Khobar
P.O. Box 182
Dammam 31411, Saudi Arabia
Phone +966 (0) 13 668 5700
Fax +966 (0) 3 887 3931

Jeddah
Saudi Business Center
Madinah Road
P.O. Box 442
Jeddah 21411, Saudi Arabia
Phone +966 (0) 1 2 657 2725
Fax +966 (0) 1 2 657 2722

Syria
Fardos
9 Fardos Street
P.O. Box 12487
Damascus, Syria
Phone +963 (0) 11 2456683
Fax +963 (0) 11 2221878

Rawda
38 Rawda Street
P.O. Box 30033
Damascus, Syria
Phone +963 (0) 11 3322303
Fax +963 (0) 11 3322304

United Arab Emirates
Abu Dhabi
Al Sila Tower
Abu Dhabi Global Market Square
P.O. Box 990 Abu Dhabi,
United Arab Emirates
Phone +971 (0) 2 408 2424
Fax +971 (0) 2 408 2525

Dubai
Deloitte & Touche (M.E.)
Building 3, Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai, United Arab Emirates
Phone +971 (0) 4 376 8888
Fax +971 (0) 4 376 8899

Fujairah
Al-Fujairah Insurance Co. Building
P.O. Box 462
Fujairah, United Arab Emirates
Phone +971 (0) 9 222 2320
Fax +971 (0) 9 222 5202

Ras Al-Khaimah
Insurance Building, Al-Nakheel,
Ras Al-Khaimah, UAE
P.O. Box 435
Ras Al-Khaimah,
United Arab Emirates
Phone +971 (0) 7 227 8892
Fax +971 (0) 6 574 1053

Sharjah
United Arab Bank Tower
Al Buhairah Corniche
P.O. Box 5470
Sharjah, United Arab Emirates
Phone +971 (0) 6 517 9500
Fax +971 (0) 6 517 9501

Yemen
Sana'a
Sanaa Trade Center
Algeria Street, Sanaa
P.O.Box 15655 - Alsafyah, Yemen
Phone +967 (0) 1 448 374
Fax +967 (0) 1 448 378

Deloitte.

Shaping the next 90 years

Deloitte.