

Implementing Corporate Governance Regulations and Activating the Role of Internal Audit in UAE Financial Markets

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Received: 28/04/2025

Accepted: 02/12/2025

Published: 29-12-2025

Abstract:

This paper analyzes the relationship between adhering to corporate governance regulations in the UAE's financial markets and activating the internal audit function to reinforce governance process within listed companies.

The findings suggest a positive correlation between the raise in complaisance with governance rules in listed companies, reflected by the increase of 95,8% in disclosure and the evolving implementation of corporate governance regulatory by the Securities and Commodities Authority.

The results indicate an upward shift in the UAE's markets capitalization to GDP, as it doubled in the years 2022 and 2023, right after the robust in governance practices such as issuing the UAE's corporate governance code in 2020, Thereby, the stocks traded turnover ratio as the value of domestic shares traded compared to their market capitalization.

Strengthen governance practices in the UAE's financial markets was reflected on the ESG UAE index performance from 20 constitutions of best-performing stocks since its launch in 2020 till the end of 2024.

Keywords: corporate governance; internal Audit; market capitalization; financial market; ESG index

Jel Classification Codes : G34 ; M42 ; Q56 ; G14

ملخص:

تناول هذه الورقة البحثية تحليل العلاقة بين الالتزام بقواعد حوكمة الشركات في الأسواق المالية الاماراتية وتفعيل وظيفة التدقيق الداخلي لتعزيز عملية الحوكمة داخل الشركات المدرجة.

تشير النتائج إلى وجود علاقة إيجابية بين ارتفاع التزام الشركات المدرجة بقواعد الحوكمة، المتمثلة في زيادة الإفصاح بنسبة 95,8%، والتطورات في تبني وتنفيذ مبادئ حوكمة الشركات من قبل هيئة الأوراق المالية والسلع.

بينت النتائج تحول تصاعدي في القيمة السوقية إلى الناتج المحلي الإجمالي في هذه الأسواق، إذ تضاعفت عامي 2022 و2023 مباشرة بعد دعم ممارسات الحوكمة الجيدة في الشركات المدرجة، على وجه الخصوص، بعد إصدار لائحة حوكمة الشركات عام 2020 . بالإضافة إلى معدل دوران الأسهم المتداولة الذي يمثل قيمة الأسهم المحلية المتداولة مقارنة بقيمتها السوقية.

وظهرت جهود تعزيز ممارسات الحوكمة الجيدة في الأسواق المالية الإماراتية، من خلال أداء مؤشر (ESG)، الذي يعكس أفضل الأسهم أداءً لعشرون شركة مدرجة، وذلك منذ إنطلاقه في عام 2020 وحتى نهاية عام 2024.

الكلمات المفتاحية: حوكمة الشركات؛ التدقيق الداخلي؛ القيمة السوقية؛ الأسواق المالية؛ مؤشر البيئة، المجتمع والحوكمة ESG تصنيف JEL: G34 ; M42 ; Q56 ; G14.

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I. Introduction

The demand for good corporate governance is growing in financial markets and countries in order to help companies who seek to improve their performance and access to finance their investments, hence advancing financial stability and economic growth.

Corporate governance principles aspire to set up a guideline for effective management and control of a company, ensuring that it operates in a way that is ethical, transparent and accountable.

Grasping the role of corporate actors in governance oversight facilitate the implementation of sound governance practices through the establishment of robust principles applicable in listed companies, which has a direct impact on capital markets development and investor protection, Thus, governance is crucial to the sustainability of companies.

Internal audit is essential for maintaining Corporate Governance principles as it provides independent assurance on the effectiveness of risk management, internal control and governance processes, which increase the trust between shareholders and the board.

To enhance Investment opportunities and compliance with corporate governance rules among listed companies in UAE's financial markets, the Securities and Commodities Authority (SCA) has established a mandatory Corporate Governance code, also adopted the Environment, social and governance (ESG) update recommended by OECD.

This initiative aims to align the UAE Corporate Governance practices with international standards and activating Internal Audit role, this leads us to ask

The question of the study:

How do implementing Corporate Governance rules and activating internal audit function in listed companies contributes to prompting UAE's financial markets?

In order to address the main question, we must also examine the following sub-questions:

What is the role of corporate governance in enhancing investors trust in order to maximize capital market?

How activating internal audit function help governance processes?

What are the implications of governance practices adopted by listed companies for enhancing UAE's financial markets?

The importance of the study:

The purpose of this paper is to highlight the relationship between corporate governance practices and internal audit function in reinforcing investor's confidence and how it is reflected in market capitalization in UAE.

Methodology:

In this paper, we used the analytical method to have a better understanding on the effect of implementing corporate governance code in listed companies with internal audit support of governance processes in the UAE's financial markets in the period from 2015 till 2024.

The structure of this paper is divided into the following points:

- Strengthen Corporate Governance role with Internal Audit function
- Corporate Governance implementation in UAE financial Markets
- UAE's best practices of Corporate Governance Guidelines and internal audit role applicable to listed companies
- The ESG UAE index.

II. Strengthen Corporate Governance role with Internal Audit function

Corporate Governance (CG) framework encompasses all aspects of effective management, control and performance within the company, These practices involves balancing the interests of different key actors in corporate, whilst implementing accountability, transparency, fairness, responsibility and risk management as the core guiding principles of corporate governance, Also, to have a better understanding on how activating the role of internal audit function to promote corporate governance process, thus having accessibility to Financial Markets.

II.1 Assessing Good Corporate Governance practices: New trends

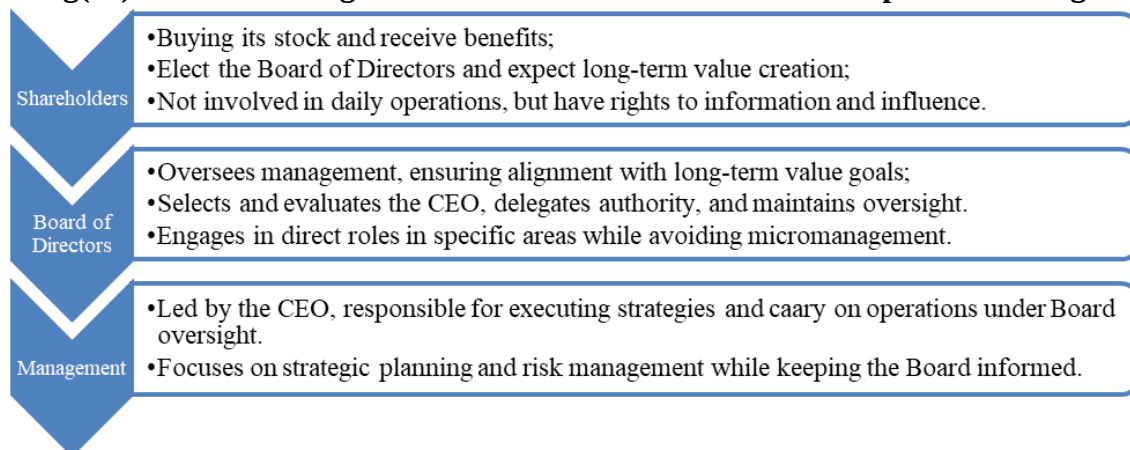
According to the **Organization for Economic Co-operation and Development (OECD)**, corporate governance is "the system by which companies are directed and controlled" (OECD, 2023), Meanwhile, the OECD Principles of Corporate Governance provide a framework and guidelines for effective governance practices.

The **International Finance Corporation (IFC)** identifies CG as "The systems, principles, and processes by which companies are directed and controlled, it encompasses the structures and processes for the direction and control of companies" (World Bank, 2022).

In 2018, IFC updated it to include the governance of environmental and social (E&S) risks, then **in 2023**, it developed a corporate governance approach tailored to managing and **overseeing climate-related risks and opportunities** (IFC, 2024).

Effective corporate governance requires a clear understanding of the respective roles of the board, management and shareholders, their relationships with each other, as well as their relationship with other corporate stakeholders.

Fig(01): Understanding the roles of Governance Actors in Corporate Oversight



Source: Compiled by author based on OECD guidelines on Corporate Governance,

Understanding the role of main actors in corporate governance is particularly important in the context of ensuring accountability, transparency, and ethical business practices, which is reflected in the following core principles of CG.

The G20/OECD principles of corporate governance aim to enhance the legal and regulatory landscape for corporate governance worldwide, support market confidence and Economic stability, these principles were initially adopted by the OECD council on July 2015, since then they underwent revisions throughout time, the most recent in **2023** reflecting updates to align with recent developments in corporate governance and capital markets, here are the key principles of corporate governance:

- Ensuring the basis for effective corporate governance framework and practices;
- The Rights and Equitable treatment of shareholders and key ownership functions, for example the UAE Securities and Commodities Authority (SCA) disclosed in 2023 report the suspension of 5 companies and cancelled 2 more companies that violated this principle,
- Disclosure and transparency in CG reporting to enhance accountability within the company;
- Defining the Board responsibilities in overseeing management and strategic direction;
- Recognizing institutional investors, stock markets, and other intermediary's role in corporate governance (OECD, 2023).

However, a recent update by OECD of CG principles in 2023 focused on **Environmental, Social, and Governance (ESG) factors** reflecting their growing importance in CG in the following points:

- **Integration of Sustainability** by addressing challenges companies face in managing climate-related along with sustainability risks and opportunities, Also, the need to incorporate ESG standards into company's governance framework;
- **Disclosure of ESG Information** by advocating for disclosure of material sustainability information that is reliable, consistent, and comparable, whereby investors and stakeholders need to make informed decisions;
- **Transparency of ESG Ratings** that are accessible to the public to ensure investors and market participants can understand how ratings are determined and to minimize future conflicts of interest;
- **Support for Sustainable Growth** by Promoting CG policies that enhance sustainability and resilience of companies, Hence, this contributes to the sustainability of the broader Economy of a country (OECD, 2023).

The OECD's Principles of Corporate Governance serve as a vital benchmark, promoting transparency, fairness, and the protection of investor rights, while enhancing sustainability and resilience for companies, Collectively, these elements are important for a well-structured governance system and practices in **fostering market confidence** and **easing long-term economic stability**.

II.2 Activating Corporate Governance mechanism through internal audit: Evaluating UAE's listed companies' compliance

Internal audit function role in upholding Corporate Governance principles is manifested through providing independent and objective evaluations of company's operations, financial reporting, and internal control environment (IIA, 2017).

To evaluate UAE's listed companies' adoption to internal audit standards, first, it is important to know internal auditing definition by **The Institute of Internal Auditors (IIA)** as: "An independent, objective assurance and consulting activity designed to add value and improve an organization's operations, It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (IIA, 2024).

to comprehend the link between enhancing corporate governance practices and implementing internal audit standards. The table below explains specific IIA standards that explain how internal audit supports corporate governance through independent assessments and recommendations:

Table (01): The role of IIA standards in enhancing Corporate Governance practices

IIA Standard	Relevance to CG
1000 - Purpose, Authority, and Responsibility by identifying and documenting audit activity in an internal audit charter approved by the board	Internal audit provides objective assurance and independent insight on the effectiveness and efficiency of risk management, internal control, and governance processes.
1100 - Independence and Objectivity, by ensuring internal auditors independency from activities they audit, also give rise to objectivity in their reports.	Independency is vital for providing unbiased assessments of CG processes and controls.
2000 - Managing the Internal Audit Activity Outlines the responsibilities of the Chief Audit Executive in managing the internal audit activity.	Effective management ensures that internal audit activities align with the company's governance framework, whilst considering strategic objectives.
2100 - Nature of Internal Auditing Describe nature and scope of internal auditing, focusing on its role in evaluating CG effectiveness.	Internal auditors assess whether governance structures are functioning as intended and support the company's objectives, plus offering governance enhancements.
2400 - Communicating Results to the appropriate parties, including the board and management.	Effective communication of audit conclusions related to governance is vital to promote accountability and transparency.
2500 - Monitoring Progress of management in addressing audit findings.	Follow the feedback on governance issues identified during audits to resolve shortly.
2600 - Communicating with the Board through direct communication between Internal auditors and the board about any significant issues related to governance.	Inform the board about any risks or control issues that could impact the company's governance framework.

Source: Compiled by author based on IIA reports on Performance Standards 2024.

However, to reflect on international audit standards and its link to CG practices within The UAE financial markets, worth noting how the UAE's **Securities and Commodities Authority (SCA)** promote the adoption of audit standards to ensure compliance with corporate governance regulatory requirements and best practices within listed companies, in term of having an effective **internal audit function** in respect of assessing the reliability and efficiency of accounting and financial, also **mandatory compliance reporting** information as a reflection on effectiveness of the controls.

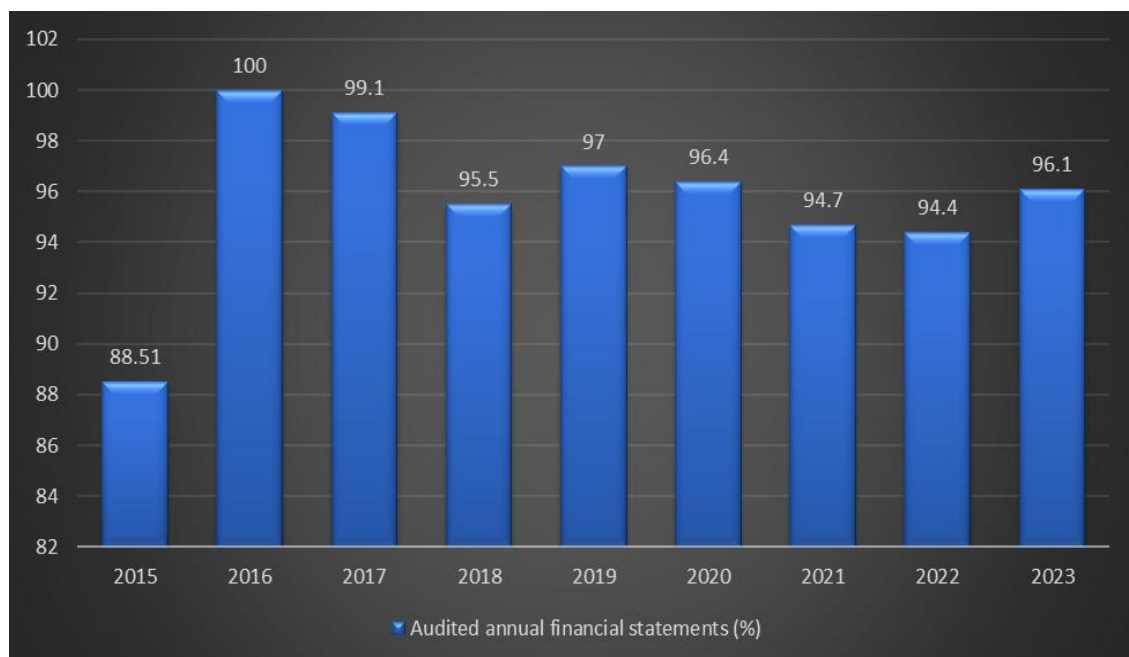
- **Disclosure, monitoring and reporting Requirements for listed companies in UAE**

There are plus **70** Listed companies in DFM and 104 company in ADX in 2024 (ADX, 2024) are obliged to respect the timeline for disclosure of the Integrated Report that includes various essential reports and data, within the **first three months** of the financial year or at least 10 days before the annual general meeting.

Most importantly, UAE listed companies are required to conduct regular internal and external audits to ensure compliance with governance standards and financial reporting requirements, However, disclosure obligations, Public JSCs significant events, financial reports, and governance practices must be published on the meantime, to maintain transparency and build investors' confidence (Millath, 2024)

Audited annual financial statements and reporting are at the top of auditor's responsibilities within listed companies, hence they must comply with the authority regulations by reporting within the given timeline.

Fig.(02): Listed companies Compliance with disclosure of financial statements in UAE financial markets from 2015 to 2023



Source: Compiled by author using the UAE's SCA governance annual reports,

From the figure above, the percentage of companies that comply with disclosure of annual financial statements in 2015 was 88,51% compliance, However, **in 2016** it reached **100%** compliance to financial statement disclosure correspondingly to the **disclosure and transparency regulations set by SCA**, following those regulations, listed company's commitment to disclosure of financial statements stayed high, **over 95% in most years** from 2017 to 2022.

In 2023, the number of auditors registered with the SCA to audit accounts or prepare reports on periodic or annual accounts or financial statements of listed companies in UAE markets was 11 auditing firm, which was reflected on the percentage of **96,1% compliance** by companies.

- **Requirements from listed companies regarding CG implementation and Internal control**

All Listed companies in the UAE's financial markets are obliged to provide specific documents to the Securities and Commodities Authority upon the implementation of Governance controls, specifically regarding the company's **Internal control System**, the documents required include:

- Board resolution establishing the internal control department;
- Chart showing the structure of the internal control department and its reporting lines in the organizational chart of the company;
- A statement outlining the expertise, qualifications, and names of the department head and staff members;
- A statement outlining the functions of the department (SCA, 2025).

Hence, the SCA emphasizes the importance of implementing corporate governance regulations upon listed companies, also it is mandatory for companies to provide these documents as a part of governance control and monitoring how companies should comply.

III. Corporate Governance implementation in UAE's financial Markets

Corporate Governance implementation in the UAE's financial markets is a comprehensive process that involves adherence to established regulations, active participation from regulatory authorities, and a commitment to best practices by companies, this framework aims to enhance transparency, accountability, and ethical conduct, and ultimately fostering investor confidence.

III.1 Evaluating Corporate Governance implementation in the UAE from 2015-2024

The Abu Dhabi Securities Exchange (ADX) was established in 2000 as a market for trading securities; including shares issued by public joint stock companies, bonds issued by governments or corporations, exchange traded funds, and any other financial instruments approved by the UAE Securities and Commodities Authority (SCA). However, on 17/03/ 2020, ADX was converted from a "Public Entity" to a "Public Joint Stock Company PJSC" pursuant to law No.(8) of 2020 (ADX, 2024).

The Dubai Financial Market was also established as a public institution in 2000, this market deals in equity instruments, debt instruments, Exchange Traded

Funds (ETFs) and securities lending and borrowing, Thus, it provides a platform for local and international companies to raise capital through Initial Public Offerings (IPOs) (DFM, 2024),

The number of listed companies on DFM and Nasdaq Dubai by the year 2023 was 66 equities, with Market Capital for equities of 688 billion AED, plus, over one million investors in DFM with a total trade value exceeding AED 101 billion same years, (DFM, 2024) However, a notable index made by DFM is the DFM General Index (DFMGI) launched officially in 2006, aims to replicate the performance of the DFM listed companies, whilst reflecting on true barometer for the Dubai stocks which is followed widely by investor and businesses (DFM, 2022)

➤ ***Setting regulatory environment for Corporate Governance in the UAE***

Setting a regulatory framework is one of the most important platforms to establish good corporate governance practices upon listed companies, and the UAE's experience regarding CG regulations mainly issued by government authorities and regulatory bodies, the set of regulations and rules are implemented and evolved throughout the years in the UAE's financial markets, especially:

- ***The UAE's Commercial Companies Law (CCL)***

The Federal Law No, 2 of 2015, as amended, ***governs the formation, operation, and management of companies in the UAE***, Plus, it outlines various types of companies, including limited liability companies, public joint-stock companies, and private joint-stock companies (UAE government portal, 2024). Hence, the CCL sets out the framework for CG, especially corporate governance principles (UAE government portal, 2020), including ***board composition, shareholder rights, and financial disclosure requirements***.

Thus, it aims to enhance transparency, accountability, and investor protection in the UAE's corporate sector, Also, this law focuses on the importance of transparency, accountability, and fairness in corporate decision-making. Later on, ***in 2022***, Federal Decree Law N° 32 of 2021 Commercial Companies came into effect and replaced the one in 2015, which ***regulates the different forms of Companies in UAE***, (ECGI, 2022)

- ***Securities and Commodities Authority (SCA) Regulations***

The SCA as the main regulator of the UAE's capital markets have several responsibilities for overseeing corporate governance practices in listed companies, including issuing various regulations and guidelines to promote good governance practices.

For instance, in **2016**, the UAE introduced **Corporate Governance rules** for Public Joint Companies for the sole purpose of enhancing transparency, accountability, and shareholders rights (SCA, 2016), also sets out requirements for board composition, audit committees, and disclosure.

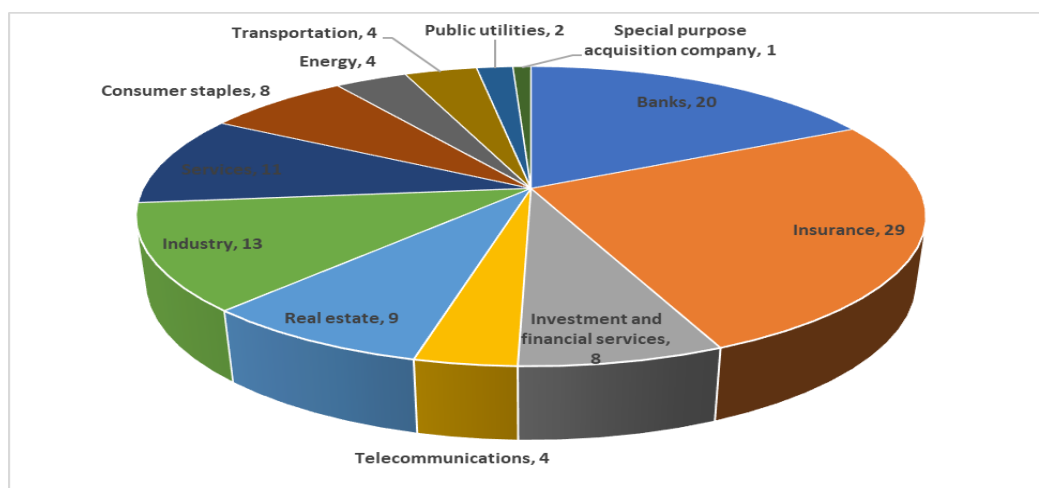
Next, in **2017**, the authority established **Disclosure and Transparency Rules mandate** that listed companies must take on particular disclosure requirements to ensure transparency in their operations (SCA, 2024).

However, **in 2020**, the SCA replaced 2016 rules with a new Corporate Governance Regulations under chairman of SCA Board Decision N° 03/RM, destined to **strengthen CG implementation** in (PJSCs) listed both in ADX and DFM (SCA, 2020).

On the other hand, regarding **Data Protection Regulations**, The UAE has introduced **new regulations**, including the **Dubai International Financial Centre (DIFC) Data Protection Law 2020**, and the Abu Dhabi Global Market (ADGM) Data Protection Regulations 2020 (ADGM, 2020), aligned with and impact corporate governance practices in the UAE. However, it was later on amended by Data Protection Regulations (Amendment No, 1) in 2024 (ADGM, 2024)

We found that insurance and banking sectors companies could implement corporate governance code comparing to other economic sectors in UAE financial markets, as the following chart represent the number of listed companies subjected to governance control by sector in 2023.

Fig.(03): Corporate governance implementation by sector in UAE 2023



Source: Compiled by author using the UAE's SCA governance annual reports 2023.

The work of the SCA in Setting up regulatory frameworks and guidelines to implement Corporate Governance principles within both listed and Private

companies in the UAE brings more investment opportunities, especially with adhering to internal audits and financial reporting, also provide transparency initiatives, investor protection measures, and educational programs, that contribute to creating a more accountable and transparent corporate environment, which is essential for attracting both local and international investors.

III.2 Assessing Corporate Governance practices within UAE's financial markets: Before and after governance new regulations

In this section we assess the implementation of Corporate Governance in the UAE financial markets **before and after** the new **governance regulations of 2020**. Here are several specific responsibilities and requirements outlined in the amendments related to UAE's Governance Code and regularities:

a. Ensuring governance compliance: Key practices for UAE Public Joint-Stock Companies

By the year **2020**, the SCA set **Corporate Governance Code** (SCA, 2020) followed by updates related to governance requirements, shown in the latest changes from **Decision no, 2/RM of 2024**, Hence, all public joint stock companies are expected to comply with these rules by adopting these new changes:

- **Building accountable board of directors**, as the majority Board Composition must be non-executive, with at least one-third of the Board members being independent to enhance the independence and objectivity (SCA, 2024),
- The Board is obliged to adopt **Internal Controls and Risk Management frameworks** that align with international standards and practices, especially referencing the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which emphasizes the need for robust risk management systems (PWC, 2024),
- **Enhancing Audit Committee Reporting** since the committee is required to issue an annual report detailing its activities, and present it as a separate document within the company's annual CG report, to enhance transparency and accountability related to the audit process (KPMG, 2024),
- **Establishing Governance Committee** that includes non-executive board members indicates that internal audit will likely interact with this committee to ensure that governance rules are implemented effectively and evaluated regularly.
- **Engaging in Corporate Social Responsibility (CSR) initiatives** is important according to the Ministerial Resolution No, 2 of 2018, promoting socio-economic development and environmental sustainability in line with the

latest OECD update on CG principles in the Global Corporate Sustainability report of 2024 (OECD, 2024).

Overall, these amendments are designed to enhance governance framework in the UAE, increase accountability, and ensure that PJSCs operate with greater transparency and integrity, Compliance with these new rules is mandatory, and companies will need to adapt their governance structures and practices accordingly (CBUAE, 2022).

b. Role of Corporate Governance in prompting UAE's financial markets: an evaluation

The SCA established comprehensive corporate Governance rules and regulations that align with international standards, these rules are **mandatory** to apply to **all joint stock companies listed on UAE's Markets** (CGI, 2018), there are a set of governance reporting requirements that must be fulfilled and accessible in the SCA form, As the following:

- At least **one-third of directors** must be **independent** directors and the chairman and managing director must be **two individuals**;
- At least every **two months** the board of directors should hold a **meeting**, in 2023 there was 146 general assembly's held in regard of complying to this principle;
- An **audit committee** and a nomination and remuneration committee must be formed;
- A compliance officer must be appointed;
- The board must have an **internal control** system to evaluate all implementations;
- A **yearly report** must be submitted to the SCA (SCA, 2025).

These governance regulations are often associated to the correlation between the implementation of corporate governance and financial market performance, which also implies to the UAE's case, as we reflect on public joint-stock companies comply with CG rules in the **Abu Dhabi Securities Exchange (ADX) and the Dubai Financial Market (DFM)**.

The table below includes key characteristics of the two main stock exchanges in the UAE **before and after** the implementation of **2020 regulations**:

Table (02): Key characteristics of UAE Financial Markets Before & after implementing Corporate Governance new regulations

Year	Listed companies in ADX and DFM	Listed companies subject to governance controls	listed companies that provided governance report	Capital of public joint-stock companies (AED-billion)	Stocks traded, turnover ratio (%)	Market capitalization as a % of the GDP
2015	125	87	85	279,81	29,4	52,86
2016	119	87	87	196,81	23,2	59,96
2017	113	90	87	202,13	19,03	61,82
2018	112	90	89	411,9	10,99	54,96
2019	111	90	89	428,18	11,85	58,98
$\bar{x}$	116	88,8	87,4	272,6625	18,894	57,716
2020	137	90	89	551,34	12,72	84,36
2021	128	110	88	689,72	21,55	133,55
2022	119	110	105	701,93	16,77	173,62
2023	156	113	111	704,6	18,92	188,99
$\bar{x}$	135	105,75	98,25	627,97	17,49	145,13

Source: Compiled by author using data extracted from the World Bank and the UAE's Securities and Commodities Authority governance annual reports.

Comparing the **average rates** in the two periods that explain the before and after implementing the **governance code** by the SCA in **2020**, The table above demonstrates an **increase in the number** of listed companies subjected to governance controls (from around **89** average in the period 2015-2019 to **106** average in the period 2020-2023), which reflect the markets effort to adopt international standards of institutional discipline and governance rules as an integrated system to ensure adequate transparency and neutrality in the capital market.

The extent of **listed companies' compliance to governance rules** by the data from the table above shows that: from **2015 to 2019**, the majority of listed companies subject to governance controls provided governance report with a proximity of 87 company. However, **after** the SCA issued a governance code in **2020** and provided governance report form to follow, the number increased to 98 companies could provide a governance report by the year 2023.

To comprehend the nature of **correlation** between the listed companies that provided Governance report and the Capital of public joint-stock companies after the implementation o corporate Governance code in 2020, we use the following table:

Table (03): Correlation rate between companies' compliance to 2020 Corporate Governance code and the capital of public joint-stock companies

2020-2023	<i>listed companies that provided governance report</i>	<i>Capital of public joint-stock companies (AED- billion)</i>
listed companies that provided governance report	1	0.606534795
Capital of public joint-stock companies (AED- billion)	0.606534795	1

Source: Compiled by author using data extracted from the World Bank and the UAE's SCA governance annual reports.

The data shows a **positive correlation (CORRE rate: 0,60)** between compliance to governance code 2020 and the capital of public joint-stock companies. Hence, the reinforcement of governance regulations (compliance to Governance rules is mandatory for listed companies **after 2020** in UAE) aligned with the number of listed companies complying to disclosure and the capital of public joint-stock companies that increased from 279,81 AED billion in 2015 to 704,6 AED billion in 2023 by an **increase of 152%**, along with turnover ratio as the value of domestic shares traded divided by their market capitalization.

Stocks traded turnover ratio measures the volume of shares traded in both DFM and ADX market relative to the total number of outstanding shares, which give an insight on the liquidity and activity level of UAE's stock markets, From the table above, we conclude that **in the first year, 2015 of introducing governance rules**. the ratio reached the highest level by **29,4%** as a reflection of high liquidity in UAE's markets, giving investors the possibility of buying and selling shares without significantly affecting the stock price. This ratio witnessed a fall in the years from 2018 to 2020 (10,99% to 12,72%) right before governance rules **became mandatory** for public joint-stock companies in UAE, which may indicate lower liquidity. However, **it improved to 21,55% in 2021**, By the year of 2022, the ration reached 16,77% then **18,92% in 2023**.

Table (04): Correlation rate between companies' compliance to 2020 Corporate Governance code and Market capitalization as a % of the GDP

2020-2023	<i>% of listed companies complied to CG</i>	<i>Market capitalization as a % of the GDP</i>
% of listed companies complied to CG	1	0.99155206
Market capitalization as a % of the GDP	0.99155206	1

Source: Compiled by author using data extracted from the World Bank and the UAE's SCA governance annual reports.

From the table above, there is a **strong positive CORRE of 0.99** between the percentage of listed companies' compliance after 2020 governance code and market capitalization to GDP (The Stock Market Capitalization of the ADX and of the DFM as of end of the year divided by GDP of UAE). as it **doubled** in the period from 84,36% in 2020 to 188,99% in 2023 in a progressive manner. Hence, the implications for regulators, investors, and companies regarding corporate governance implementation have a **positive effect** since it **enhance** UAE financial markets performance and efficiency.

c. Strengthening Corporate Governance in the UAE towards the new OECD's standards

Recognizing the significance of a strong Governance frameworks, the UAE has introduced various regulations and initiatives aimed to enhance Corporate accountability, transparency and ethical practices across its financial markets.

One notable development is launching *The S&P/Hawkamah ESG UAE Index* in 2020, which evaluates 20 best performing companies from both DFM and ADX based on Environmental, Social, and Governance (ESG) factors (DFM, 2024).

The selection of companies is based on their **total market capitalization**, and is subjected to a screening process that evaluates their **ESG disclosure practices**, including analyzing information from **annual reports**, and **stock exchange disclosures**.

This index was established by the Hawkamah Institute for Corporate Governance owned by Dubai International Financial Centre (DIFC) to promote good corporate governance practices across both public and private companies in the UAE (Hawkamah, 2024) in align with the **2023 OECD update on Global Corporate Sustainability principles**.

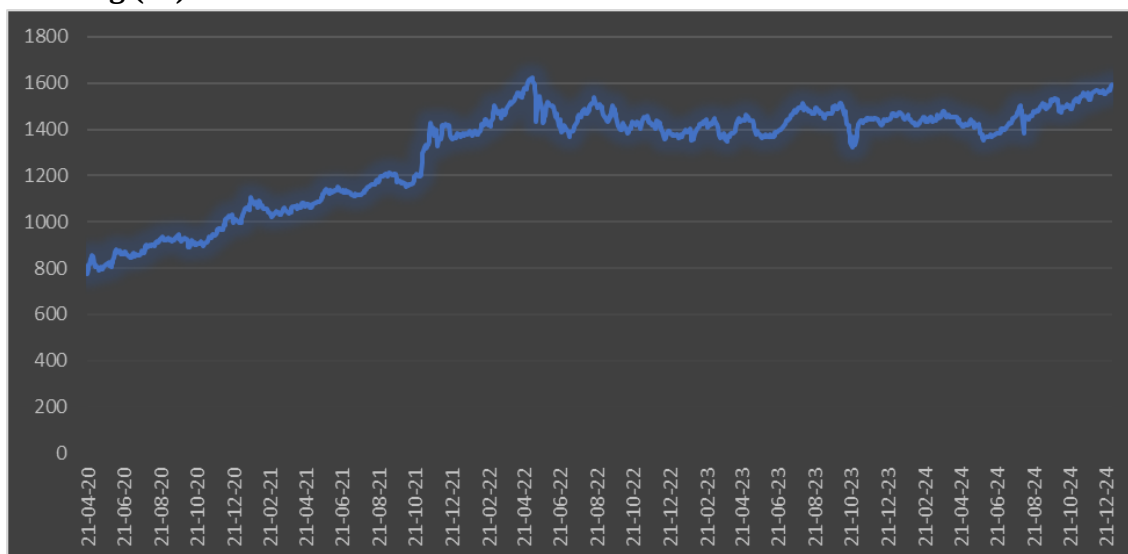
Companies gained an exempting by the SCA from registration fees in green or sustainability-linked bonds or sukuk worth 14 billion AED for 2023.

The selection of stocks in this Index is primarily based on **ESG performance scores**, which are derived from qualitative and judgmental assessment of various ESG criteria, including how companies manage their **environmental impact, social responsibilities and governance practices**. Furthermore, stocks with significant market capitalization (the average market capitalization of the constituents in UAE markets is approximately USD **19,3 billion** are the chosen ones (S&P Global, 2024).

However, this Index is rebalanced annually for adjustments regarding latest ESG assessments and market conditions, ensuring that it remains reflective of the best-performing stocks in the UAE markets. Moreover, *the S&P/Hawkamah ESG UAE Index's returns* come of use for **investors to evaluate the index metrics and make informed decisions** about their investment

strategies. The figure below shows the performance of the S&P/Hawkamah ESG UAE Index, which reflects 20 chosen stocks that excel in ESG factors in the period of 2020 till 31/12/2024:

Fig.(04): The S&P/Hawkamah ESG UAE Index Performance 2020-2024



Source: Compiled by author using data extracted from the Institute of Governance-Hawkamah and S&P Global,

The chart above shows a **consistent upward trajectory**, it indicates that the S&P/Hawkamah ESG UAE Index has been performing well since its launch in 2020, suggesting good performance from the underlying 20 constituents, However, the higher value was recorded **in 2022** with **1,625,17 points**. afterwards, the index value kept steady yet high levels, which reflect the performance based on the underlying stocks' prices and their respective weights, with an exception in 2023 of 1,324,48 points as the chart above shows, However, by the end of **2024**, this index recorded **1,593,88 points**, close to the peak point of **best-performing stocks**.

In addition, the raising performance of this index was shown in its total return of **11,34%** in 2023, this means that if an investor had invested in the index at the beginning of the year, their investment would have grown by 11,34% by the end of that year (S&P Global, 2024) Hence, investors can use the performance of the index to gauge its effectiveness in delivering returns.

IV. Conclusion

In conclusion, **adhering to corporate governance regulations** by listed companies in both DFM and ADX, fosters investors' confidence, led to a **significant increase in Market capitalization** as a percentage of GDP in the UAE reflected by the strong **positive CORRE rate of 0,99** as it doubled in the period from 84,36% in 2020 to 188,99% in 2023.

There is also a **positive correlation of 0.60** between **listed companies' compliance** to 2020 Governance Code and their **capital stock**, which means

governance adherence influence listed companies' **financial strength**.

Our findings indicate that compliance with governance rules has a positive impact on market capitalization, with its rise, it encouraged UAE's listed companies subject to governance controls to uphold governance rules, especially after the SCA preceded the governance code in 2020, 88 from 110 companies could provide a governance report in 2021, However, the number improved to 105 from 110 in 2022, then 111 from 113 companies in 2023.

The SCA asserted the importance of internal audit function in the UAE governance code by obliging the Board to adopt internal control and risk management frameworks that align with global standards and practices, this has further strengthened governance process, and it was evident from 2015 to 2023, as most of the listed companies subject to governance controls in the UAE has **100% compliance** with disclosure of financial statements.

Furthermore, the UAE has demonstrated a stronger commitment to corporate governance by launching the S&P/Hawkamah ESG UAE Index in 2020, aligning its practices with the OECD updates on the Environmental, Social, and Governance factors, this index has been performing well, especially in 2022 as it recorded the higher value with 1,625,17 points. However, the raising performance of this index was shown in its total return of 11,34% in 2023, it also scored up to 1,593,88 points by the end of 2024.

Ultimately, the UAE's compliance to corporate governance regulations and reinforcing the role of internal audit in the process, built investor's trust reflected by the capital of public joint-stock companies in UAE, as it rises from 279,81 AED billion in 2015 to 704,6 AED billion in 2023 by an increase of 152%.

In addition, Stocks traded turnover ratio in both DFM and ADX, starting the first year, 2015 of introducing governance rules reached the highest level by 29,4% as a reflection of high liquidity in UAE's markets, which ensure investors to buy and sell shares without significantly affecting the stock price, Thereby, fostering a stable financial environment, attract investments and enhance market efficiency and sustainable growth.

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