



PICG ADVISORY UPDATE-9

December 2017 & January 2018

**GOVERNANCE, COMPLIANCE
& CORPORATE REPORTING**

Corporate governance refers to the way in which corporations are directed, administered, and controlled. It is concerned with both the relationship between internal and external stakeholders as well as the governance processes designed to help a corporation achieve its goals. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies as well as striking a balance between both economic and social goals and between individual and communal goals.

Corporate reporting is evolving from mere financial reporting to include non-financial disclosures in order to address the needs of a wider stakeholder audience. Investors are looking for more data in annual reports to devise their investment and valuation strategies. Compliance with applicable laws and regulations is also fundamental to good governance.

The Advisory Update, therefore, aims at keeping our members updated with regards to the latest governance-related changes to regulations and practices, both local and international.

The update consists of a Summary Table with links to relevant information followed by a Synopsis of the changes.

A. Summary Table

Pakistan

Sr #	Issued by	Reference	Date (2017)	Topic / Update link
1. Regulations/ Rules issued				
i	SECP	SRO 254(1)/2008	Feb 22, 2018	Companies (Postal Ballot) Regulations, 2018
ii	SECP	SRO 227 (I)/2018	Feb 13, 2018	Mediation and Conciliation Regulations 2018
iii	SECP	SRO 241(I)/2017	Feb 15, 2018	Shariah Standards of AAOIFI 17,18 & 23
iv	SECP	SRO 76 (I)/2018	Jan 25, 2018	Companies (Registration Offices) Regulations, 2018
v	SECP	SRO 35 (I)/2018	Jan 17, 2018	Draft Corporate Restructuring Companies Rules 2018
vi	SECP	SRO 34 (I)/2018	Jan 17, 2018	Draft Employees Contributory Fund (Investment in Listed Securities) Regulations, 2018
vii	SECP	SRO 1256(I)/2017	Dec 18, 2017	Draft Securities (Leverage Markets and Pledging) Rules, 2017
2. Directives				
i	SECP	S.R.O.1236(I)/2017	Dec 4, 2017	Directive for Corporate Insurance Agents (excluding Banks) and Technology Based Distribution Channels, 2017
3. Circulars				
i	SECP	Circular 02/2018	No Feb 9, 2018	Prohibition on distribution of gifts

Sr #	Issued by	Reference	Date (2017)	Topic / Update link
4. Guidelines				
i	SECP	Guidelines	Jan 29, 2018	Public Sector Companies (Corporate Governance Compliance) Guidelines 2018
5. Amendments				
i	SECP	SRO 253(I)/2018	Feb 21, 2018	Securities and Futures Advisers (Licensing and Operations) Regulations, 2017
ii	SECP	SRO 77(I)/2018	Jan 29, 2018	Amendments to Securities Brokers (Licensing and Operations) Regulations 2016
iii	SECP	SRO 28 (I)/2018	Jan 12, 2018	Amendments to Intermediaries (Registration) Regulations, 2017
iv	SECP	SRO 7 (I)/2018	Jan 5, 2018	Amendments to Public Offering Regulations, 2017
v	SECP	SRO1279 (I)/2017	Dec 21, 2017	Amendment to NBFC Regulations
6. Others				
i	SECP	Guidelines	Feb 2, 2018 + Dec 6, 2017	Additional FAQs for Listed Companies (Code of Corporate Governance) 2017(Feb2018) + FAQs for CCG Regulations 2017
ii	SECP	S.R.O. 73(I)/2018	Jan 25, 2018	Independent Director Databank
iii	SBP	BPRD Circular No. 02 of 2018	Jan 25, 2018	Revised Forms Of Annual Financial Statements
iv	SBP	SRO 1239 (I)/2017	Dec 7, 2017	Exemption to restriction of section 199(1) of the Companies Act 2017

International

Topic	Links
Corporate Governance Code and related Listing Rules- Hong Kong	Review of Code - Hong Kong
FRC's UK Governance Code	Proposed Revisions to the UK Corporate Governance Code

B. Synopsis of changes

Pakistan

1. Regulations/ Rules issued

Various Regulations/ Rules have been notified by the Securities and Exchange Commission of Pakistan and State Bank of Pakistan to streamline procedures and improve governance structures of companies in Pakistan.

Following is a summary of such Regulations / Rules (both drafts issued for public comments and final versions) issued during the past couple of months as notifications, circulars, drafts, etc., which have been placed on their respective websites:

a. Draft Regulations/ Rules

Sr. no	Name of Regulations / Rules	Public comment deadline	Description
1	Draft Corporate Restructuring Companies Rules 2018	Within 30 days (Feb 17, 2018)	<p>BPRD Circular Letter No. 34 of 2016 issued by the SBP allowed the establishment of corporate restructuring companies, via The Corporate Restructuring Companies Act, 2016, defining such companies as:</p> <p>A public limited company licensed by the SECP to carry out the business of:</p> <p>a) acquisition, management restructuring and resolution of non-performing assets of financial institutions; and</p> <p>b) restructuring, reorganisation, revival and liquidation of commercially or financially distressed companies and their businesses.</p> <p>In this regard, draft Rules have now been issued requiring companies to obtain licenses to act as corporate restructuring companies along with details on the process to obtain the same from SECP. Required forms, documents and renewal procedures have also been mentioned in the draft Rules.</p> <p>Those currently providing services as a corporate restructuring companies' shall also be required to obtain approval and license from the SECP within 6 months from the date of notification of these Rules.</p>
2	Draft Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018	Within 14 days (Jan 31, 2018)	<p>The regulations shall apply to all provident funds, contributory pension funds or any other contributory retirement funds constituted by a company or where a trust has been created by a company to manage such funds in respect of all the investments made by a company or trust in bonds, redeemable capital, debt securities or instruments issued by a statutory body, units of collective investment schemes registered as notified entities with the Commission, and in listed securities including shares of companies, bonds, redeemable capital, debt securities and equity securities. The draft regulations specify limits for investment in listed securities and reporting requirements for investments made.</p> <p>On application of the regulations, the SECP will repeal the Employees' Provident Fund (Investment in Listed Securities) Rules, 1996, Employees' Provident Fund (Investment in Listed Securities) Rules, 2016, notification No SRO 261(I)/2002 dated May 10, 2002 and notification No SRO 537(I)/2004.</p>

			Within one year from the date of commencement of notification of these Regulations, all investments from the above mentioned funds shall be brought in conformity with the provisions of these Regulations.
3	Draft Securities (Leverage Markets and Pledging) Rules, 2017	Within 30 days (Jan 18, 2018)	<p>Specifies new Securities Broker's obligations, whereby brokers would be required to evaluate the creditworthiness of customers through a proper credit risk assessment methodology and assign credit limits to each customer beyond which the customer shall not be allowed to avail financing under margin financing and margin trading.</p> <p>In addition to the securities brokers' obligations under the Securities Brokers (Licensing and Operations) Regulations, 2016, a broker acting on behalf of its customers in any of the leveraged markets or pledging the securities of a customer shall ensure that no transaction is executed by the broker on behalf of a customer unless an appropriate agreement has been executed between the securities broker and such customer and all provisions of Anti-Money Laundering Act, 2010 and any rules and regulations made thereunder are complied with at all times.</p> <p>A broker shall maintain records in respect of its compliance with the aforesaid obligations and such records shall be open to inspection by the SECP at any time.</p>

b. Final Regulations/ Rules issued

Sr. no	Name of Regulations / Rules	Effective date	Description
1	Shariah Standards No 17, 18 and 23 of AAOIFI	Feb 16, 2018	<p>The Standards pertain to:</p> <p>Shariah Standard No 17 - Investment Sukuk, Shariah Standard No 18 - Possession (Qabd) and Shariah Standard No 23 - Agency and the Act of an Un-Commissioned Agent (Fodooli)</p> <p>The standards are aimed at harmonizing business practices of Islamic financial institutions, various Accounting and Shariah Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have been adopted as a benchmark for Islamic financial services while keeping in view the local business context.</p> <p>The Shariah Advisory Board of SECP approved the above Standards for adoption, following which the Islamic Finance Department (IFD) presented them to the Commission for approval, which has now been granted after a thorough consultative process and notified accordingly.</p>
2	Companies (Postal Ballot) Regulations, 2018	Feb 22, 2018	<p>The right of voting through postal ballot shall be provided to members of:</p> <p>(a) every company, subject to the requirements of sections 143 and 144 of the Act (pertaining to demand for poll & poll for secret ballot); and (b) a listed company in case of election of directors.</p> <p>The regulations highlight the responsibility of companies and procedures for voting both through electronic medium and via ballot paper. It also discusses the responsibility of the Chairman towards the results of the polling.</p> <p>The 'Companies (E-Voting) Regulations, 2016' issued vide S.R.O 43 (I)/2016 dated January 22, 2016 stands repealed with the issuance of these regulations.</p>

3	Mediation and Conciliation Regulations 2018	Feb 9, 2018	<p>In order to resolve disputes of the corporate sector, SECP shall establish a panel of mediators or conciliators for resolution of disputes, claims or controversy arising among company's management, creditors, members or directors of companies. The mediator or conciliator shall follow the procedures laid down in the regulations to dispose off the referred matters.</p> <p>Certain matters that shall not to be referred to mediation or conciliation include cases involving serious fraud, fabrication of documents forgery, impersonation, etc; cases involving prosecution for criminal and non-compoundable offences and cases which involve public interest or interest of persons who are not parties before the Commission or the Appellate Bench.</p>
4	Companies (Registration Offices) Regulations, 2018.	Jan 25, 2018	<p>For registration of companies and performing other duties under the Act, the SECP shall have Company Registration Offices at specified places, with jurisdiction extending to companies, (except non-trading companies with purely provincial objects) , having registered offices in other territories specified (ie. the Company Registration Offices may function beyond their territorial jurisdiction to the extent and manner as may be notified by the SECP from time to time).</p> <p>It has been made mandatory for Company Registration Offices to destroy company's records, kept in physical form, after the expiration of 10 years. The regulations also discuss electronic databases and the register of companies to be maintained.</p> <p>With notification of these new regulations, the SECP has repealed the Companies (Registration Offices) Regulations, 2003.</p>

2. Directives

Corporate Insurance Agents (excluding Banks) and Technology Based Distribution Channels, 2017

The SECP has issued a directive applicable to all corporate insurance agents (other than banks) of life and non-life insurers including family and general Takaful operators; and relevant provisions of the directive are also applicable to the distribution of insurance through technology based channels, with or without the involvement of a corporate insurance agent.

The SECP states that any insurer or its chief executive officer, or director, or key officer will not hold any direct or indirect ownership or management interest, whether pecuniary or otherwise, in any corporate insurance agent with whom it has entered into an agreement and vice versa.

The Directive specifies matters required to be addressed in such agreements by insurers and the respective corporate insurance agents. The agency agreement shall, at the minimum, clearly state the roles and responsibilities of each party involved in the distribution arrangement in respect of areas including policy acquisition/ enrollment; administration and servicing; claims processing and complaint handling. The agency agreement shall contain the "termination of agreement" clause and rights and obligations of the corporate insurance agent and insurer subsequent to such termination and such clause shall also state the treatment to be given to existing policyholders and remuneration to the corporate insurance agent subsequent to their termination.

This directive will apply to all new insurance business underwritten by insurers on or after March 31, 2018 under the agency agreements with the corporate insurance agents. However, the insurers and the corporate insurance agents shall make amendments to the existing agency agreements, wherever necessary, to comply with the provisions of the directive not later than April 1, 2018.

3. Circulars

Prohibition on distribution of gifts

The provision of gifts/ incentives in any form to shareholders at or in connection to general meetings is strictly prohibited under Section 185 of the Companies Act, 2017. As a result, the SECP has decided to penalize any company that distributes gifts/incentives to its shareholders at the annual general meeting. Moreover, complaints have also been received in connection with the expectation of shareholders to receive gifts from companies.

Companies are therefore directed to restrain from giving any gift/ incentive in lieu of gift (tokens/ coupons/ lunches/ takeaway packages) in any form or manner to its shareholders at or in connection to their respective general meetings. Likewise, companies must also denounce any demand of any gift/ incentives from shareholders.

4. Guidelines

Public Sector Companies (Corporate Governance) Rules, 2013

SECP has issued guidelines applicable to every Public Sector Company (PSC), as defined in the Companies Act, 2017 and Public Sector Companies (Corporate Governance) Rules, 2013, requiring the PSC's to publish and circulate a statement of compliance with the Public Sector Companies (Corporate Governance) Rules, 2013 in the form set out in Schedule I to the Guidelines, along with its annual report, to set out the status of its compliance therewith.

The guidelines specify the form of the Statement of Compliance and the various matters to be included therein. The Statement shall be signed either by the CEO jointly with the Chairman of the Board or in case of his absence, with any of the Independent Non-executive Directors. In case of non-compliance with any of the provisions of the Rules, the reasons for non-compliance along with a line of action for complying with the provision in future, shall be provided in the Statement in the form set out in Schedule II to the Guidelines.

External auditors shall review the Statement before publication and certify compliance by issuing a clean or modified review report to the members, as set out in Schedule III to the Guidelines.

Notwithstanding anything contained in the Statement, any disclosure required under any other directive, code, regulation or rules shall be made in the Statement.

5. Amendments

Various amendments are made by SECP from time to time to bring existing regulations upto date and also to ensure clarity on certain matters.

Following is a summary of some of the main amendments made over the last few months:

Sr. no	Amendments issued	Description
1	Securities and Futures Advisers (Licensing and Operations) Regulations, 2017	<p>To make advisory regulatory regime more practicable and conducive.</p> <p>The mandatory advisory licensing requirement for securities brokers have been withdrawn and securities brokers have been allowed to provide securities advisory to their brokerage customers, being incidental to the conduct of their business without receiving any separate compensation thereof.</p> <p>Further, securities brokers have been allowed to distribute units of mutual funds and voluntary pension funds of multiple Assets Management Companies(AMCs).</p> <p>The advisory regime has been segregated into 2 segments:</p> <ol style="list-style-type: none"> i. Advisory with portfolio management to be governed under the Non-Bank Finance Companies (NBFC) regime, whereas ii. Advisory with distribution of units of mutual funds and voluntary pension funds of multiple AMCs to be dealt under the amended Securities and Futures Advisers (Licensing and Operations) Regulations, 2017. <p>SECP shall grant licenses only to corporate entities for undertaking any regulated activity in the capital markets and not to any individuals and banks have been allowed to distribute units of mutual funds and voluntary pension funds of multiple AMCs, subject to certain regulatory requirements.</p> <p>To facilitate the existing distributors, the deadline to obtain license has been extended to June 30, 2018.</p>
2	Securities Broker (Licensing and Operations) Regulations, 2016	<p>Instead of multiple mandatory licensing regimes, a securities broker is now only required to obtain a single license to undertake brokerage activity in the capital market (ie. A licensed securities broker would not require all other mandatory licenses including futures broker, securities advisor, futures advisor and accredited representative).</p> <p>Further, to reduce regulatory burden, the license renewal process has been simplified and annual renewals would be processed upon submission of recommendation from the Pakistan Stock Exchange along with an undertaking from the securities broker that he is compliant with all regulatory requirements and deposit of regulatory fee.</p> <p>The SECP has also approved a single cut-off date concept for expiry of licenses for the entire brokerage industry. Moreover the validity date for existing brokerage licenses have been extended to December 31, 2018, and the securities brokers may apply for renewal of licenses for the next calendar year by November 30, 2018. Further, time line to comply with existing financial resource requirements has been extended from June 30, 2018 to June 30, 2019.</p> <p>Furthermore:</p> <ul style="list-style-type: none"> • Licenses to undertake any regulated activity in the capital markets shall be granted only to corporate entities and not to any individual. • As brokerage activity can only be undertaken in a corporate structure, the existing concept of agents for securities brokers has become redundant and is no more desirable. Accordingly, the Brokers and Agents Registration Rules, 2001, and the Members Agents and Traders (Eligibility Standards) Rules, 2001, have been repealed

		<p>and all the existing agents, if already not employed, may be hired as employees by the securities brokers.</p> <ul style="list-style-type: none"> • The proposed Accredited Representatives Regulations, 2017, notified for public consultation, have also been withdrawn by the SECP. • The proposed Securities Manager (Licensing and Operations) Regulations, 2017, notified for public consultation, have been withdrawn as the advisory business model encompassing portfolio management services is comprehensively covered under the NFBC regime.
3	Public Offering Regulations, 2017	<p>To promote quality listing, ensure fair price discovery through book-building process and increase investors' base.</p> <p>To minimize the subjectivity involved in the approval process, certain specific requirements for listing have been introduced, including :</p> <ul style="list-style-type: none"> • At least 3 years operational track record of the company with two years profitability from its core business activities • Book value per share of the company shall not be less than its face value per share. • Sponsors of the company, i.e. persons holding not less than 51% of the shares, shall be the same for the last two years. <p>However, these conditions shall not apply in case of a green field project.</p> <p>With regard to the book-building process, the concept of price band has been introduced, with the upper limit of not more than 40% of the floor price (ie. the minimum offer price per share set by the Issuer). The basis of allotment has been changed from time priority basis to proportionate basis, and the minimum bid size has been reviewed from Rs 1million to Rs 2 million and minimum number of bids required have been increased from 40 to 100 bidders, to arrive at a more transparent bidding process.</p> <p>Besides the above, a number of other changes have been made to improve the overall environment for capital formation in the economy through the primary market. In order to facilitate investors to make well informed decisions, additional disclosures have also been prescribed with regard to peer group companies comparison encompassing earning per share, book value per share, market value per share; P/E multiple, return on equity; return on assets and free float etc.</p> <p>The concept of e-IPO has already been implemented and the SECP has also expedited its approval processing time which has significantly reduced the time and cost associated with an IPO.</p>
4	Intermediaries (Registration) Regulations 2017	<p>Specifies requirements for intermediaries, who will be authorized to file statutory returns/documents/reports with the registrar or the SECP on behalf of companies. It includes eligibility requirements and procedures to obtain registration, renewal and cancellation of registration, mechanism for appointment and removal of authorized intermediary by the company and duties and responsibilities of authorized intermediary.</p> <p>The time required for existing intermediaries to obtain registration with the SECP has been amended from "within 3 months of coming into force of these regulations" to "not later than March 31, 2018".</p>
5	Non-Banking Finance Companies and Notified Entities Regulations, 2008	<p>A number of amendments have been made to the regulations including matters regarding restrictions on functions of Asset Management Companies not to apply to certain transactions; process of sending of investment account statements to unit or certificate holder; details required in case of Government Securities i.e. PIB, GoP Ijara Sukuks, TBills or any other securities (eg. they shall include the date of issue and tenure) etc.</p> <p>Some amendments were also made to the Schedules of these regulations.</p>

6. Others

a. FAQs for Listed Companies (Code of Corporate Governance) 2017

In December 2017, 'Frequently Asked Questions'(FAQs) with respect to the Listed Companies (Code of Corporate Governance) Regulations 2017, were issued by the SECP for facilitation of stakeholders, providing explanation regarding certain matters such as the term 'independent director', eligibility for appointment of CFO/ Head of Internal Audit, criteria for institutions desirous of holding Directors' training program, etc.

After the Regulations became effective (ie.for periods starting after December 31, 2017) and certain practical issues were being faced by stakeholders, SECP has again issued additional FAQ's to provide clarity on certain matters effecting compliance and disclosure under the Regulations.

The FAQ's clarify that foreign directors can now attend general meetings through video-conferencing and as the applicability of the two set of laws (i.e. Code 2012 and the Regulations 2017) in the same financial year may affect disclosures under the statement of compliance by the Board, SECP has allowed companies to follow either for the purpose of reporting in the statement while giving additional disclosure for clarity. Moreover, details regarding the election of independent director has been explained in light of the requirements of the Companies Act 2017. Emphasis has also been made on relevant disclosures in the statement of material facts in the notice of election of directors for information of members and role of Chairman to ensure that mandatory requirements of electing independent director/s is aptly communicated to members and that specific slot/s for independent directors is not filled-up by unqualified nominees.

Companies are expected to adopt an inclusive approach towards the Regulations in line with best practices in corporate governance as they are responsible for appropriate implementation of the same within their respective organisations.

b. Independent Director Databank

An independent director means a director who is not connected or does not have any other relationship, whether pecuniary or otherwise, with the company, its associated companies, subsidiaries, holding company or directors; and he can be reasonably perceived as being able to exercise independent business judgment without being subservient to any form of conflict of interest.

As per Section 166 of the Companies Act 2017:

*"an independent director to be **appointed under any law, rules, regulations or code**, shall be selected from a data bank containing names, addresses and qualifications of persons who are **eligible and willing** to act as independent directors, maintained by any institute, body or association, as may be notified by the Commission, having expertise in creation and maintenance of such data bank and post on their website for the use by the company making the appointment of such directors:*

*Provided that **responsibility of exercising due diligence** before selecting a person from the data bank referred to above, as an independent director **shall lie with the company** or the Government, as the case may be, making such appointment."*

In this regard, we are pleased to inform you that the SECP selected and notified that the Pakistan Institute of Corporate Governance is authorized to create and maintain a data bank of independent directors and post such data on its website for the use of companies in the process of appointing such directors.

PICG is currently in the process of setting up the databank, subject to the approval of the overall process by the SECP and a notification shall be issued when the same is up and running for use of companies searching for appropriate independent directors.

c. Revised Forms of Annual Financial Statements

As per Section 34 of the Banking Companies Ordinance, 1962, banks are required to prepare their annual accounts in the forms set out in the Second Schedule of the aforesaid Ordinance.

Due to a number of significant regulatory developments as well as many additions / amendments in the International Financial Reporting Standards since the last amendments in 2006, the State Bank of Pakistan, has amended the existing format of the annual financial statements of banks. The revised format of annual financial statements, together with notes forming part thereof will substitute the existing forms circulated vide BSD Circular No. 04 of 2006 and other instructions on the subject from time to time.

All banks have been directed to prepare their annual financial statements on the revised format, effective from the accounting year ending 31st December, 2018.

Further, in order to ensure certain minimum disclosure to stakeholders, DFIs shall also adopt the enclosed forms with suitable modification(s) in line with their nature of business, to prepare their annual financial statements effective from the accounting year ending 31st December, 2018.

d. CFOs of listed companies to authenticate financial statements

Chief Financial Officers (CFOs) of listed companies are required to authenticate financial statements of their companies under section 232 of the Companies Act, 2017 in order to ensure executive management of a listed companies give more thought and care in preparation of the same by making them personally liable for authenticity of information contained therein. Only thereafter, shall the financial statements be approved by the board and signed on behalf of the board by the Chief Executive and at least one Director of the company.

During regulatory review of listed companies by the SECP, a number of instances were noted where CFOs, in violation of the explicit legal requirements, had not authenticated the financial statements for the year ending June 30, 2017.

The SECP has emphasized that boards and management of listed companies must fully comply with the legal requirements of section 232 of the Act in respect of the financial statements for the ensuing periods to avoid any punitive action in future.

e. Exemption to restriction of Section 199(1) of the Companies Act 2017

According to the relevant provisions of the Companies Act 2017 pertaining to investments in associated companies and undertakings, a company shall not make any investment in any of its associated companies or associated undertakings except under the authority of a special resolution which shall indicate the nature, period, amount of investment and terms and conditions attached thereto. (The term 'investment' shall include equity, loans, advances, guarantees, by whatever name called, except for the amount due as normal trade credit, where the terms and conditions of trade transaction(s) carried out on arms-length and in accordance with the trade policy of the company)

With regard to the above, the SECP has exempted the following from the above restriction of making investments in associated companies/undertakings:

- i. A banking company duly licensed by the State Bank of Pakistan, to the extent of investments made in the ordinary course of its business, excluding equity investments;
- ii. A Development Finance Institution duly licensed by the State Bank of Pakistan, to the extent of investments made in the ordinary course of its business, excluding equity investments;
- iii. A Non-Banking Finance Company (“NBFC”) duly licensed by the Commission, to the extent of investments made in the ordinary course of its business, excluding equity investments;
- iv. An NBFC duly licensed by the Commission to carry out Investment Advisory Services or Asset Management Services, to the extent of investments made in a Collective Investment Scheme being managed by such NBFC;
- v. A Modaraba Management Company, to the extent of investments made in a Modaraba being managed by such company;
- vi. A holding company, to the extent of investments made in its wholly owned subsidiary: Provided that any disinvestment by a holding company which would reduce its holding in the subsidiary, in which an investment was made pursuant to this exemption, to less than seventy percent shall be made under the authority of a special resolution;
- vii. A company whose principal business is the acquisition of shares, stock, debentures or other securities, to the extent of acquisition of such securities on behalf of its clients in the ordinary course of its business;
- viii. Associated companies of NBFCs licensed to undertake asset management services for making investment (other than seed capital) in the open end schemes managed by such NBFCs;
- ix. A private company which is not a subsidiary of a public company;
- x. Companies making investment in the form of deposits with associated banking company duly licensed by the State Bank of Pakistan or NBFC duly licensed by the Commission provided that the rate of return should not be less than prevailing market rate of return on similar deposits;
- xi. Any investment made by an investment Company, as defined in NonBanking Finance Companies and Notified Entities Regulations, 2008, in accordance with its investment policy given in the prospectus.

International

1. Corporate Governance Code and Corporate Governance Report- Hong Kong

The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of the Hong Kong Exchanges and Clearing Limited, published two consultation papers to seek public views and comments thereon:

- i. Proposed changes to the Corporate Governance Code and Corporate Governance Report (the Code), as well as related amendments to its Listing Rules (the Rules); and
- ii. Proposed changes to documentary requirements relating to listed issuers and other minor Rule amendments.

The Exchange monitors corporate governance developments and reviews the Code and related Rules on an ongoing basis to ensure that they reflect currently acceptable standards and are adequate for maintaining investors' confidence in the market. Changes to the Code and related Rules, as a result of consultation exercises conducted in recent years, include increase in the number of Code Provisions (CPs) (subject to "comply or explain") from 45 to 74 and the introduction of new Rules in 2012; introduction of a CP on board diversity and requirement to disclose diversity policy in 2013; substantive changes to risk management and internal control section of the Code in 2016. The Environmental, Social and Governance Reporting Guide ("ESG Guide") was also introduced in 2012.

Recognising that issuers vary in size and complexity of operations and each faces unique risks and challenges, the Code consists of a combination of:

- i. Mandatory Rules,
- ii. Code Provisions that are subject to "comply or explain" and
- iii. Recommended Best Practices that are voluntary.

The current paper aims to address certain corporate governance concerns and to raise the overall standards of corporate governance amongst issuers and directors, taking into account relevant international practice as well as recent market developments in the area. In particular, the proposals are intended to:

- i. Enhance transparency and accountability of the nomination and election process of directors including independent non-executive directors ("INEDs");
- ii. Improve transparency of INEDs' relationship with issuers;
- iii. Strengthen the independence criteria in assessing potential INED candidates;
- iv. Promote board diversity; and
- v. Require greater transparency of dividend policy.

2. FRC Proposal for Revision to the UK Corporate Governance Code Report

The Financial Reporting Council (“FRC”) released its proposals for revisions to the UK Corporate Governance Code (“Code”) and Revised Guidance on Board Effectiveness for consultation on December 5, 2017

The FRC is UK’s independent regulator that sets UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work and also monitors and takes action to promote the quality of corporate reporting.

The draft Code is shorter and sharper but still focuses on the application of the Principles, that set out high-level recommendations, and 41 Provisions that continue to be “comply or explain” oriented. The Listing Rules require companies to make a statement of how they have applied the Principles. This statement should enable shareholders to evaluate how the principles have been applied in the context of the particular circumstances of the company and how the board has set the company’s purpose and strategy, met objectives and achieved outcomes through the decisions it has taken. Companies will need to be alert to the increased emphasis on reporting on the application of Code Principles rather than explaining non-compliance with Code Provisions. The ability of investors to evaluate the approach to governance is important.

Key proposed changes to the Code focus on 5 main areas:

- i. Stakeholder engagement
- ii. Responding to a significant vote against a resolution
- iii. Board composition
- iv. Diversity
- v. Remuneration

The Corporate Governance statement should also relate to other parts of the annual report – particularly the strategic report and other complementary information – so that shareholders can effectively assess the quality of the company’s governance arrangements, and the board’s activities and contributions.

The Code is supported by Guidance on Board Effectiveness, which assists boards when applying the Principles and is intended to stimulate thinking on how boards can carry out their role most effectively.

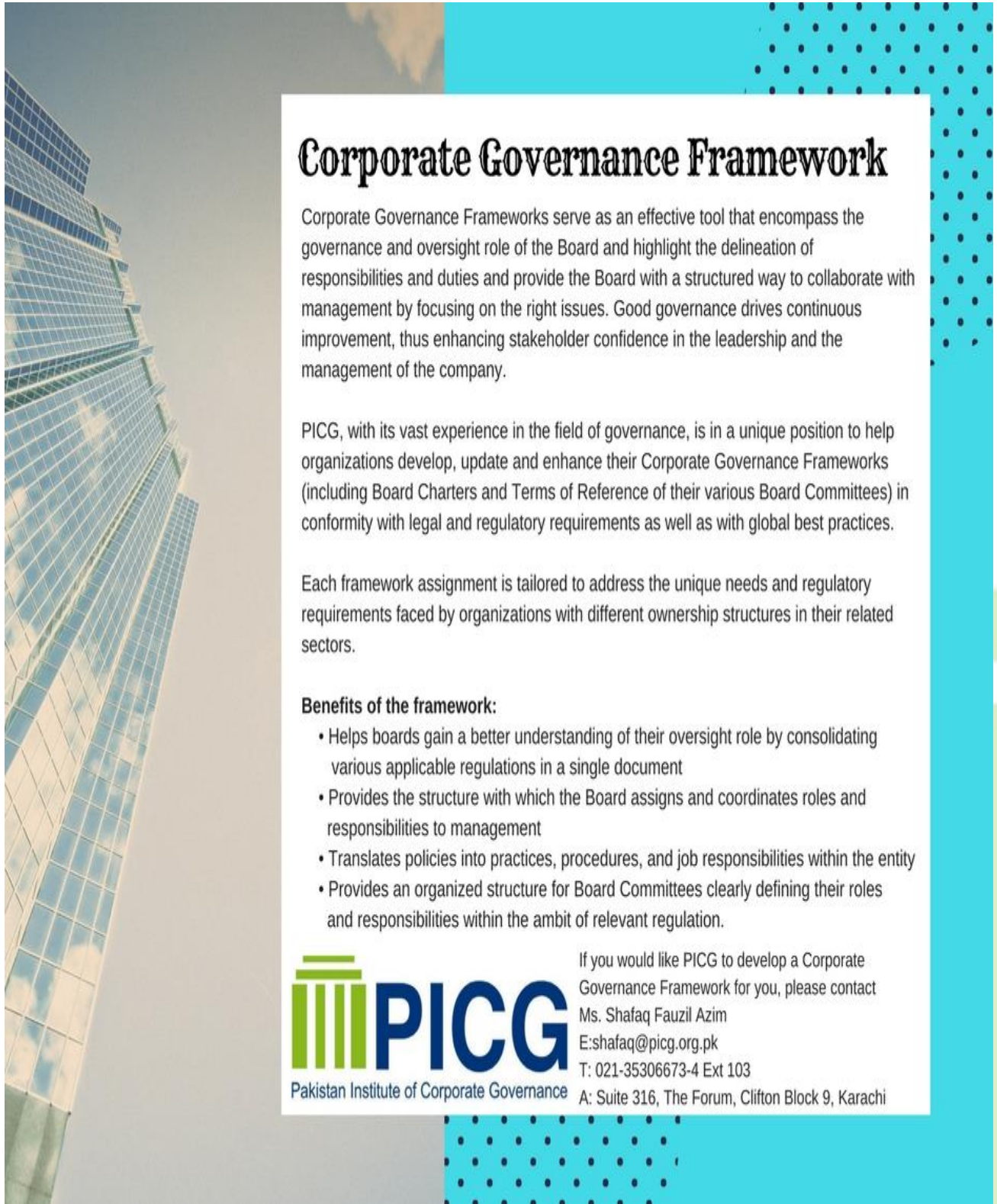
The Code is applicable to all companies with a premium listing of equity shares, whether they are incorporated in the UK or elsewhere, and is proposed to apply to accounting periods beginning on or after January 1, 2019.

Global Trends in Corporate Governance expected in 2018

Global trends in governance likely in 2018 of which directors should be aware.

1. **Better Investor Stewardship:** An enhanced interest in investor stewardship by governments and investors is impacting corporate governance globally. Since the last financial crisis, there has been a drive for more investor accountability in how they use their influence and votes to steer the strategic direction of investee companies. As a consequence, many of the world's largest institutional investors are expanding staff and resources dedicated to engaging with investee companies and proxy voting.
2. **Board Quality & Composition:** Institutional investors will continue to prioritize gender diversity, director skills and experiences, composition refreshment, and the appointment of directors who have enough time to dedicate to the company as key indicators of board quality.
3. **Compensation:** Executive pay will continue to remain in the spotlight as investors are looking for additional engagement and/or disclosure around total compensation and link to long-term strategic goals and business performance.
4. **Activist Investing:** Institutional investors want to see long-term shareholder value creation, and activist investors often call for short-term value enhancement. The companies that have had the most success navigating activist campaigns have been the ones with boards that are willing to have a meaningful dialogue with activists to achieve a resolution.
5. **Environmental, Social, & Governance Risk:** While climate change risk and sustainability have been emerging areas of focus for several years, investors now consider the topics to be mainstream priorities. Though companies in extractive industries are likely to receive the greatest levels of scrutiny, other sectors will also see more engagement from institutional investors.
5. **Cybersecurity:** In light of multiple security breaches (in the political, government, private sector, and consumer spheres) worldwide, this will be an important area of focus for boards to monitor. Many institutional investors are expected to formulate their policies on cyber risk and the role of the board, leading to further engagement on this topic.
7. **Human Capital:** Institutional Investors are interested in matters including effective succession planning at the C-suite level and beyond, the impact of company culture on performance, and gender pay disparity.

Post on 'The Harvard Law School Forum on Corporate Governance and Financial Regulation' by Russell Reynolds Associates-Dec 2017



Corporate Governance Framework

Corporate Governance Frameworks serve as an effective tool that encompass the governance and oversight role of the Board and highlight the delineation of responsibilities and duties and provide the Board with a structured way to collaborate with management by focusing on the right issues. Good governance drives continuous improvement, thus enhancing stakeholder confidence in the leadership and the management of the company.

PICG, with its vast experience in the field of governance, is in a unique position to help organizations develop, update and enhance their Corporate Governance Frameworks (including Board Charters and Terms of Reference of their various Board Committees) in conformity with legal and regulatory requirements as well as with global best practices.

Each framework assignment is tailored to address the unique needs and regulatory requirements faced by organizations with different ownership structures in their related sectors.

Benefits of the framework:

- Helps boards gain a better understanding of their oversight role by consolidating various applicable regulations in a single document
- Provides the structure with which the Board assigns and coordinates roles and responsibilities to management
- Translates policies into practices, procedures, and job responsibilities within the entity
- Provides an organized structure for Board Committees clearly defining their roles and responsibilities within the ambit of relevant regulation.