2020

PICG ADVISORY UPDATE- 36

Jun-Sept 2020

CELEBRATING 15 YEARS OF EXCELLENCE

PICG

Pakistan Institute of Corporate Governance

THE UPDATE

The past few months have been a period of recovery and revitalization - from striving to survive an unprecedented economic and social crisis, businesses are now focusing on trying to thrive. Board and management teams are broadening their scope of thinking to encourage multifaceted business prosperity and are engaging with various stakeholders to recenter after a long period of stagnation. Some companies have taken commendable strides in outreach and assistance for their employees and for the community at large.

Policymakers and regulators have also tried to play their role in supporting businesses with various regulatory reliefs being granted on deadlines and contractual obligations. Restoring confidence in businesses will be crucial to determine how successfully economies can recover. However, for now, we need to learn to safely live with the virus whilst ensuring continuity and sustainability.

In light of the above, this advisory update has been created with a wider lens to incorporate the triple bottom line i.e. Profit, People and Planet. Coming out of a pandemic, now more than ever, companies must start fulfilling their responsibilities to all stakeholders as this will ensure stability in unforeseen circumstances. ESG criteria refer to environmental, social and corporate governance, and these three factors are central in measuring the sustainable impact of investments. Good governance goes beyond the financial; it is equally concerned with social wellbeing of employees and wider communities, along with the natural environment.

Each section of the update, divided into the ESG factors, consists of tables summarizing local and international updates (with links to relevant information) followed by a synopsis of such changes.

We hope you will find the update useful.

> **Policymakers have the opportunity of a lifetime to implement truly sustainable recovery plans that reboot the economy and generate investment in the digital upgrades much needed by small and medium-sized companies, as well as in green infrastructure, transport and housing to build back a better and greener economy.**
>
> **- OECD Chief Economist Laurence Boone**

PICG
Pakistan Institute of Corporate Governance

Environment

ENVIRONMENTAL GOVERNANCE

Sr #	Topic	Links
Pakistan		
i	Country profile from United Nations Sustainable Development Report	Interactive Profile of Pakistan
ii	State Bank Pakistan inaugurates an Urban Forest	Urban Forest Press Release
International		
iii	2020 GlobeScan / SustainAbility Leaders Survey	GlobeScan / SustainAbility Survey
iv	OECD Report on harnessing the benefits of sustainable ocean economies for developing countries	The Development Dimension: Sustainable Ocean for All

a. UN Sustainable Development Report 2020- Pakistan Profile

The United Nations Statistics Division (UNSD) released their 2020 Sustainable Development Report. It presents thoughts on the Covid-19 crisis, country performances and the future of sustainable development. Within the report, the Sustainable Development Goals (SDG) Index and dashboards presents and aggregates data on country performance towards the SDGs, complimenting efforts of national statistical offices and international organizations.

Pakistan ranks lowest in South Asia at 134/193 of countries on the SDG Index; Climate Action is the sole goal we are on track to achieve in lieu of imports and energy related CO2 emissions. Many challenges remain in all other SDGs with Gender Equality, Zero Hunger and Industry, Innovation and Infrastructure lagging the most in performance. The country's efforts are stagnating on nearly 50% of all the goals and require immediate attention to ensure sustainable development for all. Pakistan scores 99.6/100 on the spillover index, indicating more positive externalities from activities than negative.

b. State Bank Pakistan (SBP) Inaugurates an Urban Forest & Paper Conservation Laboratory

Governor SBP inaugurated an Urban Polyculture Forest of native species under the 'Miyawaki' method[1] that encourages rapid growth in dense plantations that shall be maintenance free in 3 years, replicating a natural forest. Upon reaching maturity, the forest will absorb 300-350 tons of CO2 per year. Such habitat creation promotes intense biodiversity, a critical factor for sustainable development.

The Polyculture Forest is expected to encourage people, communities, organizations, businesses and civil society to collectively plant trees and thus play their part in improving climatic conditions and contribute to the afforestation of Karachi.

SBP Paper Conservation Laboratory has also been established under the Division of Archives & Record Management. The lab is a repository of the 'permanently valuable records' of SBP, which have been determined to have continuing historical value and/or require preservation for legal or fiscal reasons.

c. 2020 GlobeScan / SustainAbility Leaders Survey

The 2020 SustainAbility Leaders Survey was conducted to evaluate the progress of the 'sustainability agenda' alongside companies and organizational experts perceived to be leaders in the same since 1997. The survey summarizes data from 700 experts representing businesses, government, NGO and academia across 71 countries.

The survey also analyses expert views on which companies are considered to be leading on 'integrating sustainability into their business strategy', as well as which NGOs are making the largest contribution to advancing the sustainable development agenda.

According to the report, climate change, biodiversity loss and water scarcity remain the most urgent sustainability challenges, with climate change generating strong concern almost universally. In the wake of the global pandemic and economic recession, concern about poverty, economic inequality, access to healthcare and food security – along with the spread of infectious disease – are increasingly seen as very urgent. The challenge of diversity and inclusion also receives increasing attention among sustainability professionals in 2020.

Experts' perceptions of the private sector's contribution to sustainable development continue to decline, although less sharply than last year. Research/academia and citizen-led movements have seen their perceived performance steadily increase, while national governments and institutional investors continue to be perceived as contributing the least.

While having sustainability as part of the core business model continues to be key to sustainability leadership, setting ambitious targets and committing to the United Nations Sustainable Development Goals (SDGs) is also increasingly recognized by experts and is now seen as an equally significant attribute of leadership.

[1] "Miyawaki" method involves planting dozens of native species in the same area.

d. Benefits of Sustainable Ocean Economies for Developing Countries

The Development Dimension's[2] report provides policy makers in developing countries, as well as their development co-operation partners with evidence on:

- the latest trends in selected ocean-based industries;
- policy instruments, including economic incentives, to promote ocean sustainability in various contexts;
- the first review of development finance and development co-operation practices in support of more sustainable ocean economies, including a discussion of how development co-operation can help re-orient private finance towards sustainability.

The report highlights adopting more sustainable ways of managing the ocean as a global priority; as protecting its health will bring benefits to all. Developing countries face specific challenges, as many depend heavily on ocean-based industries and are overly exposed to the consequences of ocean degradation. Enhancing the access of such countries to science, policy advice and financing would allow them to tap better into the opportunities of a more sustainable ocean economy, including cleaner energy, improved food security and enhanced resilience, while contributing to the protection of the world's ocean.

"People of conscience need to break their ties with corporations financing the injustice of climate change."
Desmond Tutu
Archbishop Emeritus

"Climate change increasingly poses one of the biggest long-term threats to investments."
Christiana Figures
Secretary of the UNFCCC

[2] A series of OECD books analyzing the development aspects of policies in other domains, such as economic, financial, environmental, agricultural or trade policies.

Social

SOCIAL GOVERNANCE

Sr #	Topic	Links
Pakistan		
i	Asian Infrastructure Investment Bank launches RISE program, co-financed by the World Bank.	RISE program receives approval for funds $250 million
ii	Study of the impact of CSR on financial performance, employee satisfaction and loyalty in banks	Journal of Accounting and Finance in Emerging Economies
International		
iii	World Bank publication on global productivity trends, and the impact of adverse events like pandemics	Global Productivity: Trends, Drivers and Policies
iv	United Nations Statistics Division (UNSD) report on "The Sustainable Development Goals and Covid-19"	2020 Sustainable Development Goal Report

a. RISE program by Asian Infrastructure Investment Bank (AIIB)

The RISE program by AIIB, co-financed with the World Bank, is part of an integrated package of immediate efforts by the Government of Pakistan to mitigate the significant negative health, social, and economic impacts of the COVID-19 pandemic. It constitutes one element of Pakistan's response to the impact of the COVID 19 pandemic focusing on economic revitalization and crucial health and social sector spending.

The policy actions under the program are expected to promote medium term reforms in macroeconomic management, institutional strengthening and foster growth and competitiveness for economic resilience as 'Development Policy Financing', with approved funds of USD 250 million.

It aims to deliver:

i. social protection for vulnerable people,
ii. an expanded health sector response to the pandemic and
iii. a pro-poor fiscal stimulus package to ensure recovery in growth and employment.

b. The Impact of CSR on Financial Performance, Employee Satisfaction and Loyalty in Banks

Published in the Journal of Accounting and Finance in Emerging Economies, the study explores the influence of Corporate Social Responsibility (CSR) on the satisfaction and loyalty of bank employees' as well as the financial performance of such banks. The paper assumed that employees could have different perceptions of the CSR being conducted by the banks they work for.

The report states that CSR positively effects employee satisfaction and loyalty, as well as the bank's performance. Employee satisfaction is directly related with their loyalty to the company, and employee loyalty positively impacts the bank's financial performance. The report concludes that banks should look at CSR through the lens of their employees to ultimately benefit all stakeholders.

The study also notes that publicity is vital to raising awareness about CSR activities and it positively impacts employee, investor and consumer perceptions.

c. World Bank- Global Productivity: Trends, Drivers and Policies.

The report discusses the evolution and drivers of productivity growth, examines the effects of COVID-19 on productivity, and discusses a wide-range of policies needed to rekindle productivity growth.

Studying the impact of adverse events on productivity, the report offers 3 main conclusions:

- First, the productivity slowdown is multifaceted; working age population has decelerated, educational attainment has stabilized, reallocation of labour between economic sectors has slowed down. Historically, epidemics and pandemics have had significant and persistent effects on productivity.
- Second, the productivity growth slowdown since the global financial crisis, in addition to COVID-19, may have profound impacts on progress toward development goals.
- Finally, there is a need for a proactive policy approach; resources must be allocated to more productive centres and enterprises, including through strengthening competition. Technology adoption and innovation needs to be reinvigorated, including ensuring workers possess transferable skills for new sectors and that they are covered by social protection.

d. UN Sustainable Development Report 2020- Covid-19, the SDGs and the Recovery

Focusing on the Covid-19 pandemic, the Sustainable Development Report reviews early responses and short-term priorities for action by governments, analyses responses to the immediate health crisis and describes emerging lessons applicable to various levels of society and economy.

In the short-term, every country's absolute priority is to control the spread of the virus. International collaboration and partnerships are needed to speed this fight, support macroeconomic stability, and avoid a disastrous humanitarian crisis. Global cooperation would include disseminating best practices rapidly, strengthening financial mechanisms for developing countries, addressing hunger hotspots, ensuring social protection, and promoting new drugs and vaccines.

In the longer term, the report argues that the SDGs provide the framework to guide recovery. Countries need to invest in stronger and more resilient health systems and pursue the other SDGs. Mitigating negative impacts of the pandemic on the SDGs should be a top priority to ensure a sustainable recovery. According to the index of epidemic control, South Korea is the top performing country and their success can be credited to a high-quality public health system and early efforts by government.

CORPORATE GOVERNANCE

Sr #	By	Reference	Date	Topic / Update link
Pakistan				
1. Regulations				
i	SECP	Circular no 29 of 2020	Sep 30, 2020	SECP Clarification on Procedure for Election of Directors (Sec 159 of Co.Act, 2017)
ii	SECP	SRO 921(I)/2020	Sept 28, 2020	Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020
iii	SECP + SBP	SRO 920 (I)/2020 BPRD Circular Letter No. 44 of 2020	Sep 28, 2020 Sep 30, 2020	Targeted Financial Sanctions(TFS)- Obligation and Reporting 2020 + AML/CFT/CPF Regulations -Guidelines on Targeted Financial Sanctions (TFS) under UNSC Resolutions
iv	SBP	BPRD Circular No. 05 of 2020	Sep 30, 2020	AML/ CFT/ CPF Regulations for State Bank Of Pakistan's Regulated Entities (SBP-RE's)
v	-	-	Sept 2020	Draft State Owned Enterprises (Governance and Operations) Act, 2020 (Note: not yet published)
vi	SECP	Press release	July 16, 2020	Draft Insurance Ordinance (Amendment) Bill, 2020 + Comparative statement of the draft Insurance Ordinance (Amendment) Bill, 2020 with the Insurance Ordinance, 2000
vii	SBP	BPRD Circular Letter No. 34 of 2020	Jul 16, 2020	Corporate Restructuring Companies (Amendment) Ordinance, 2020
viii	SECP	Circulars	Jul 7, 2020	Master Circular for Asset Management Companies (AMCs) and Investment Advisor (IAs)
ix	SECP	SRO 594 (I)/2020	Jul 3, 2020	Draft Professional Clearing Members (PCM) Regulations, 2020

Sr #	By	Reference	Date	Topic / Update link
2.	**Other**			
i	SECP	Press release	Sept 22, 2020	Disclosure Framework under Global Principles for Financial Market Infrastructure (PFMIs)
ii	PSX	Press Release	Sep 8, 2020	Re-Introduction of PSX Rulebook
iii	SBP	IBD Circular No. 03	Sep 2, 2020	Adoption of AAOIFI Shariah Standard No.49- Unilateral & Bilateral Promise
iv	SBP	FSD Circular No. 01 of 2020	Sep 1, 2020	Revised Guidelines on Stress Testing (ST)
v	SECP	Circular 26 of 2020	Aug 31, 2020	Disclosure of Impact of Covid-19 on the Financial Statements
vi	SECP	SRO 795 (I)/2020	Aug 27, 2020	Prohibited Dealing in Virtual Currencies/Tokens

International

Sr #	Topic	Links
i	Asian Development Bank Institute's report on ESG Investment Opportunities and Risks for Asia	Environmental, Social, and Governance (ESG) Investment
ii	World Bank Group Report : Framework for Assessing Corporate Governance & Risk Management	Analyzing Banking Risk - 4th Edition
iii	OECD Economic Outlook 2020	Duties and Responsibilities of Boards in Company Groups
iv	Asian Development Bank report on economic, financial, social, and environmental statistics & select indicators for Sustainable Development Goals	Key Indicators for Asia and the Pacific 2020
v	Asian Development Bank Report providing updates on financial conditions and market developments amid the COVID-19 pandemic	Asia Bond Monitor—September 2020

Pakistan

1. Regulations

a. SECP Clarification on Procedure for Election of Directors (Section 159 of the Companies Act, 2017)

The Securities and Exchange Commission of Pakistan (SECP) issued a clarification regarding Section 159 of the Companies Act, 2017 as a result of a misconception in the corporate sector that: *'in case the number of persons who offer themselves to be elected is equal to or less than the number of directors fixed, the requirement to call and hold a general meeting for the purpose of election of directors is dispensed with'.*

The provisions of Section 159(5) of the Act stipulates that the directors of a company having share capital shall, unless the number of persons who offer themselves to be elected is not more than the number of directors fixed under sub-section (1) of section 159, be elected by the members of the company in a general meeting in the manner as stipulated therein.

SECP clarified that:

- The calling of a general meeting for the purpose of election of directors is a duty and responsibility of the directors, and the tenure of office of retiring directors cannot be extended by not calling the meeting at which they are bound to retire.
- If contrary interpretation is allowed to stand, the directors could brave the consequences of not holding the general meeting within the prescribed time and continue in office indefinitely.
- Furthermore, section 151 of the Act stipulates that the minutes of proceedings of general meetings shall be the evidence of such proceedings, and until the contrary is proved, every general meeting of the company in respect of the proceedings whereof minutes have been so made shall be deemed to have been duly called, held and conducted.
- Hence, it is essential for a company to call and hold a general meeting for election of directors in terms of section 159 of the Act, in order to ensure that the proceedings are properly recorded in minutes and ultimately, the shareholders of a company are able to make informed decisions.

Accordingly, it is clarified that the holding of a general meeting is a condition precedent for the purposes of election of directors, whether the number of persons who offer themselves to be elected is equal to, less than or more than the number of directors fixed under section 159(1) of the Act.

b. SECP (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020

SECP is the designated 'Regulatory Authority' with respect to relevant Anti Money Laundering and Countering Financing of Terrorism (AML/CFT) laws for all entities licensed or regulated by SECP, and is empowered to issue regulations, directions and guidelines under section 6A of the AML Act, 2010.

Consequently, the SECP has recently issued the 'Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 to help companies identify, assess and understand their money laundering and terrorism financing risks for customers, countries or geographic areas; and products, services, transactions or delivery channels.

The regulations provide guidance on:

i. Risk assessment and mitigation (applying risk based approach)
ii. Customer Due Diligence (CDD) and beneficial ownership
iii. Record keeping, compliance programs and penalties

c. Targeted Financial Sanctions (TFS)

I. SECP : Obligation and Reporting 2020

The AML Act requires all Reporting Entities to ensure implementation of Targeted Financial Sanctions (TFS) of freezing and prohibition obligations in relation to the money, assets or property of designated or proscribed persons under the United Nations (Security Council) Act, 1948 and under the Anti-Terrorism Act, 1997.

Guidelines for implementation of the AML /CFT framework (updated April, 2020) were issued by SECP to assist Regulated Entities by clarifying and explaining the general requirements of the AML Law thereby helping Regulated Persons apply required measures, develop effective AML/CFT risk assessment and compliance frameworks suitable to their business, and detect and report suspicious activities.

The Guidelines contain four detailed Annexures, which provide guidance for preparing AML/CFT Risk Assessment; AML/CFT Compliance Assessment Checklist; ML/TF warning signs/ red flags; proliferation financing warning signs/red alerts.

In this regard, and in supersession of the Commission's earlier notifications on the subject [ie.S.R.O 55 (I)/2020 dated January 28, 2020 and SRO 881(I)/2020, dated September 9, 2020], Regulated Entities have been directed by SECP to follow certain reporting requirements in relation to:

i. Annual risk assessment and control/compliance assessment framework based on data and information as on 30 June, pertaining to:
    - Risk Assessment Framework
    - Compliance Assessment Checklist
ii. Quarterly information/ data on 30th of the subsequent month of every quarter.
iii. Each Regulated Person is required to immediately scan its customer databases and their Beneficial Owners/Associates for any matches with the stated designated/proscribed persons/entities on receipt of notifications issued by the Ministry of Foreign Affairs or intimation from National Counter Terrorism Authority/Law Enforcement Agencies/ Home Departments and take necessary action in this regard.
iv. Compliance report on Statutory Regulatory Orders regarding updates in the list of proscribed persons/entities under the Anti-Terrorism Act, 1997, shall be submitted to the Commission within forty eight hours of receiving the same.

v. Comply with requirements of Red Flags/ indicators for identification of persons/entities suspected to be acting on behalf of or at the direction of designated/proscribed individuals or entities. Red flags to watch out for have been given under the following headings:

- Red Flags applicable to all SECP Sectors
- Red Flags that specifically relate to Non-banking financial institutions (NBFIs)
- Red Flags based on behavior of an Account Holder associated with proscribed individuals or entities

Contravention with any of the above will attract sanction in accordance with AML/CFT Sanctions Rules, 2020 issued under the AML Act, 2010.

II. SBP : AML/CFT/CPF Regulations -Guidelines on TFS under UNSC Resolutions

SBP has also issued guidelines in order to further enhance understanding and ensure effectiveness on the implementation of the Targeted Financial Sanctions (TFS) regime and obligations under UNSC Resolutions.

The guidelines also provide some red flags:

- For identification of persons suspected to be acting on behalf or at the direction of designated/ proscribed individuals or entities.
- That may indicate potential proliferation financing and sanctions evasion activities

Regulated entities shall educate their customers that in case of any wrongful or inadvertent freezing, they may apply in writing for de-listing to the Government of Pakistan through the relevant Ministry or to the UN's Ombudsperson.

d. AML/ CFT/ CPF Regulations for SBP's Regulated Entities (SBP-RE's)

SBP has also issued 'Anti-Money Laundering, Combating the Financing of Terrorism & Counter Proliferation Financing Regulations for Regulated Entities(RE's)' to preserve the integrity, soundness and safety of the financial system and to prevent the possible use of its RE's for money laundering, terrorist financing, proliferation financing and other illicit activities.

Regulated Entities are financial institutions licensed/ authorized and regulated by the SBP and include:

i. Banks;
ii. Development Finance Institutions (DFIs);
iii. Microfinance Banks (MFBs);
iv. Exchange Companies (ECs)/ Exchange Companies of 'B' Category (ECs-B);
v. Payment Systems Operators (PSOs);
vi. Payment Service Providers (PSPs);
vii. Electronic Money Institutions (EMIs); and
viii. Third Party Payment Service Providers (TPSPs).

The regulations supersede the following notifications issued in this regard:

i. AML/CFT Regulations for Banks/DFIs issued vide BPRD Circular No. 7 dated December 30, 2019.

ii. Guidelines on Compliance of Government of Pakistan's Notifications issued under UNSC Resolutions issued vide BPRD Circular No. 9 dated December 30, 2019.

iii. The relevant provision of AML/CFT Regulations for Microfinance Banks issued vide AC&MFD Circular No. 3 dated December 30, 2019.

iv. The relevant AML/CFT/CPF Provisions of Chapter 6 of the Exchange Companies Manual, last updated vide EPD Circular Letter No. 19 dated December 31, 2019.

Any violation of the Regulations shall attract penal as well as administrative action under the applicable laws/rules/regulations.

e. Draft State Owned Enterprises (Governance and Operations) Act, 2020

In order to meet one of the targets set under the International Monetary Fund's Extended Fund Facility Program(EFFP), the Federal Cabinet ratified the decision of the 'Cabinet Committee on State Owned Enterprises' (CCoSOEs) to frame a law to introduce governance reforms in SOEs.

The draft State Owned Enterprises (Governance and Operations) Act, 2020, is expected to cover:

- Prudent and efficient management according to which commercial SOEs must be commercially successful and non-commercial SOEs must be efficient
- Measurable performance according to which SOEs must identify its business goals
- Responsible management according to which the management of SOEs must be competent, honest and accountable
- Transparent performance must be ensured.

The law is also expected to provide selection criteria for directors, besides encompassing the corporate governance mechanism framework.

In this connection, a detailed diagnostic study was also carried out by a technical mission of IMF which identified key governance issues in the management of SOEs in Pakistan.

f. SECP issues Draft Insurance Ordinance (Amendment) Bill, 2020

SECP has proposed amendments to the primary insurance law i.e. Insurance Ordinance 2000, via a draft bill which is aimed at addressing regulatory gaps in existing law and providing a conducive regulatory environment to encourage market development. It is expected to facilitate the use of technology, provide ease of doing business and address entity specific and systemic risks by shifting towards Risk Based Supervision (RBS) and Risk Based Capital (RBC) Regime. The amendments are also intended to strengthen the regulatory framework of the Insurance Sector in Pakistan and ensure alignment with Insurance Core Principles (ICP) of the International Association of Insurance Supervisors (IAIS).

Significant reforms proposed in the draft bill include: introduction of dedicated micro insurers, provisions for regulation of takaful and re-takaful, regulation of local and foreign reinsurance business for enhancement of local capacity, regulation of reinsurance brokers, flexibility for introduction of new intermediaries, insurance repository and insurance self-network platform, provisions for regulation of index based insurance and InsurTech. The amended law will also assist in enhancing compliance with AML/CFT frameworks.

g. The Corporate Restructuring Companies (Amendment) Ordinance, 2020

The Government of Pakistan has promulgated the Corporate Restructuring Companies (Amendment) Ordinance, 2020 to amend the Corporate Restructuring Companies Act (CRC), 2016.

Under the amendment, the Federal Government has been directed to constitute a Corporate Restructuring Board (CRB) having professionals for recovery of non-performing assets or restructuring and rehabilitation of companies in financial distress. The CRB shall be constituted consisting of not more than five members who shall be professionals and shall be subject to conditions pertaining to their functions, remuneration, eligibility & qualifications, budgetary allocation and any other matter that may be considered necessary to expedite the matters.

Under the new law, a CRC holding at least $2/3^{rd}$ in value of the principal amount payable to the secured financial institutions, may present a scheme to the CRB which may sanction such a scheme. Once sanctioned, the scheme shall override any other law applicable; any agreement or contract applicable to the Obligor; and any agreement with the financial institution and other creditors of the concerned Obligor.

Previously, a non-performing asset meant a financial asset where any amount receivable with respect to it was not received within 1 year. After the amendment, non-performing assets also include an asset which the financial institution has classified as a loss in its books and for this particular asset the condition of 1 year arrear is not mandatory.

h. Draft Professional Clearing Members (PCM) Regulations, 2020

Draft regulations have been proposed by SECP with the aim of safeguarding the interest of investors by setting up a framework to mitigate market risk and strengthen custody protection measures.

'Professional clearing members' are third party independent institutions, that will offer custodial and clearing/ settlement services to securities brokers and their customers that are expected to significantly reduce compliance burden, ensure efficiency in businesses and allow brokers to focus on their key competencies. PCM may be financial institutions such as commercial banks, Non-Banking Finance Companies etc., or specialized entities formed for this purpose; and the new regulations are based on a business model that is aimed at supporting the ease of doing business and reducing operational costs.

The draft regulation lays down licensing, conduct and operational requirements for PCM which include eligibility criteria, development of important policies and procedures, measures for ensuring customer asset protection and segregation, confidentiality of customer information and compliance with corporate governance requirements etc.

i. **Master Circular for Asset Management Companies**

SECP has issued a "Master Circular" for Asset Management Companies and Investment Advisor (IAs) to facilitate the mutual fund industry by consolidating all existing, applicable circulars, directions and clarifications. The consolidation of all past circulars, aims to draw together different enactments on a topic into a single chapter and the circulars have been divided into topics such as: categorization of collective investment schemes and investment avenues; disclosure requirements; exchange traded funds, performance benchmarks for collective investment schemes and risk management and compliance, etc.

SECP's Master Circular is aimed at streamlining the structure of circulars to make a cumulative effect of successive layers of secondary legislation, remove obsolete materials and resolve minor inconsistencies that have crept in over the years.

2. Others

a. **Disclosure Framework under Global Principles for Financial Market Infrastructure (PFMIs)**

SECP has approved a disclosure framework to provide a better understanding of Financial Market Infrastructure (FMIs) and the regulatory, supervisory, and oversight policies of SECP for FMIs in adherence to internationally recognized standards of regulation and oversight.

The disclosure framework has been prepared in accordance with the Principles for Financial Market Infrastructure (PFMIs) that pertain to standards of governance, risk management and protection of interests of participants. The PFMIs have been jointly developed by the International Organization of Securities Commission (IOSCO) and Committee on Payments and Market Infrastructures (CPMI) and are recognized by the IMF and the World Bank.

The National Clearing Company of Pakistan Limited (NCCPL) and the Central Depository Company of Pakistan Limited (CDC) are FMIs facilitating clearing, settling, recording of securities, derivatives and other financial transactions. It is expected that compliance with the global standards in FMIs will enhance confidence of participants, particularly international investors and institutions in the financial system of Pakistan.

b. Re-Introduction of PSX Rulebook

The Pakistan Stock Exchange (PSX) has re-introduced its Rule Book under the Securities Act, 2015 & the Futures Market Act, 2016 and also aligned it with the relevant sections of the Companies Act, 2017 with the approval of the SECP. The review of the Rule Book was carried out as a result of PSX's mission to align its regulations with international best practices and ensure that PSX's directives are at par with developed regional and global stock exchanges.

Changes included removing redundancies and addressing any overlaps and inconsistencies to maintain consistency of laws across the securities market, as well as provide greater clarity and ease of understanding of rights and obligations. The changes are expected to assist PSX in regulating the securities market functions in an enhanced and transparent manner while ensuring that the rights and interests of the investing public are duly protected.

c. Adoption of AAOIFI Shariah Standard No.49- Unilateral & Bilateral Promise

The State Bank of Pakistan (SBP) has adopted Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah Standard No. 49 - Unilateral and Bilateral Promise (SS-49) with immediate effect, subject to certain clarifications/amendments as defined by SBP in its circular.

The adoption was made with a view to further strengthen the Shariah compliance framework in the country and harmonize Shariah practices in the Islamic banking industry. The requirements under the standard are in addition to current regulations, other instructions and directives issued by SBP from time to time. Failure to comply with the instructions may invoke penal action under the provisions of the Banking Companies Ordinance 1962.

d. Revised Guidelines on Stress Testing (ST)

SBP has issued revised Guidelines on Stress Testing (ST) to align banks, DFIs and MFBs with changing local dynamics and international best practices to strengthen their risk management capacity.

The scope of revised ST guidelines has been broadened to incorporate guidance on Scenario Analysis, aka Macro-stress Testing (MST), and Reverse Stress Testing (RST) besides Sensitivity Analysis with an enhanced number of shock scenarios. Islamic Banks/ Islamic Banking Branches (IBs/IBBs) and Micro-Finance Banks (MFBs) are also now being required to conduct sensitivity analysis exercises. The guidelines also prescribe revised reporting arrangements with information required to be submitted through SBP's Data Acquisition Portal (DAP).

The SBP will regularly conduct its own in-house ST exercises and, if required, may engage with banks/DFIs/IBs/MFBs for any risk mitigation measures/contingency plans based on the outcome of the exercises. The SBP inspection teams may also review the process of stress testing on a test check basis.

e. Disclosure of Impact of Covid-19 Pandemic on Financial Statements of Companies

SECP has issued circular requiring companies to make disclosure about the impact of Covid-19 so that investors, potential investors, lenders, and other stakeholders have the required information to make rational decisions during the pandemic. The disclosure is to be made under a separate note titled "Impact of Covid-19 on the Financial Statements" in the first set of annual or interim financial statements issued after August 31, 2020.

Specific disclosures required to be made are:

i. The financial impact of COVID-19 on the carrying amounts of assets and liabilities or items of income and expenses, as required under the relevant accounting and reporting standards. (In addition to information already required to be disclosed under relevant standards as applicable in Pakistan).

ii. If there is going concern uncertainty due to COVID-19, specific disclosure shall also provide information about management actions and plans to mitigate/handle the adverse financial implications and operational changes.

iii. Where management has evaluated and concluded that there are no material implications of COVID-19 that require specific disclosure in the financial statements, this fact should be disclosed.

iv. The specific disclosure in the financial statements on impacts of COVID-19 would be subject to the materiality considerations in the context of IAS 1, 'Presentation of Financial Statements'.

f. Prohibited Dealing in Virtual Currencies/Tokens

SECP has directed all Companies and Limited Liability Partnerships (LLPs) to ensure compliance with SBP's circular that prohibits dealing in virtual currencies/tokens.

BPRD Circular No. 03 of 2018 dated April 6, 2018 states:

> *"Virtual Currencies (VCs) like Bitcoin, Litecoin, Pakcoin, OneCoin, DasCoin, Pay Diamond etc. or Initial Coin Offerings (ICO) tokens are not legal tender, issued or guaranteed by the Government of Pakistan. SBP has not authorized or licensed any individual or entity for the issuance, sale, purchase, exchange or investment in any such Virtual Currencies/Coins/Tokens in Pakistan……"*

Consequently, Regulated Persons shall immediately report to the Financial Monitoring Unit any transaction in this regard as a suspicious transaction under SECP's AML's regulations. Penalty shall be imposed for any violation or contravention to this directive.

International

1. ESG Investment Opportunities and Risks for Asia

Asian Development Bank Institute's report on Environmental, Social, and Governance (ESG) investment investigates the current state of ESG investment and examines the risks and benefits using an evidence-based approach. The report aims to contribute to developing a framework for future analysis and monitoring to ensure the growth of ESG investment while exploring innovative ways for economies in Asia to leverage the benefits for sound and sustainable development.

The report highlights that interest in ESG investment has been growing steadily around the world, and investors are increasingly integrating ESG factors into their investment decisions. Consequently, ESG investment has the potential to bridge the gap between traditional capitalism and the newer concepts of shared economic and social value and sustainable and inclusive finance. It can also act as a driver for incentivizing the private sector to tackle environmental and social challenges, such as those related to renewable energy, employee training and education, and the gender gap. These benefits can in turn help to boost corporate value and economic growth.

However, the report also mentions that concerns do exist on many issues, such as unclear and dispersed criteria for sustainable investment, the low quality of non-financial data, lack of disclosure, and resource misallocation risks. These obstacles are critical for many countries in Asia and the Pacific whose stages of development have not yet reached those of more developed countries.

2. Analyzing Banking Risk: Framework for Assessing Corporate Governance & Risk Management

This World Bank Group Report provides a comprehensive overview of topics focusing on assessment, analysis, and management of financial risks in the banking sector. The report emphasizes risk management principles and stresses that key players in the corporate governance process are accountable for managing the different dimensions of financial and other risks. This is the 4th edition of the report.

New business aspects affecting banking risks, such as mobile banking, and regulatory changes over the past decade—specifically those related to Basel III capital adequacy concepts—have been included in the report, as have new operational risk management topics, such as cybercrime, money laundering, and outsourcing. The reports intended target audience includes: persons responsible for the analysis of banks and for the senior management or organizations directing their efforts, as it provides an overview of the spectrum of corporate governance and risk management.

3. Duties and Responsibilities of Boards in Company Groups

OECD's Economic Outlook 2020 provides an overview of the duties and responsibilities of boards in company groups across 45 jurisdictions. The introduction outlines the global landscape of company groups, their economic role and the principal challenges they present with respect to corporate governance polices. The first part of the report develops a typology of legal and regulatory approaches that jurisdictions have taken to address these challenges, whereas the second part highlights differences and commonalities across jurisdictions, especially as they relate to:

- how directors may take into account group interests;
- procedures for managing conflicts of interest;
- compensating losses incurred by a group company for the benefit of the group;
- transparency around group purposes and allocation of business opportunities;
- and allocation of responsibility for company policy and oversight between parent and subsidiary boards.

Case studies of recent and specific approaches to company group governance in Colombia, India, Israel and Korea have also been shared along with discussions on the duties and responsibilities of boards in company groups such as: to whom do directors of group companies owe their fiduciary duties? The responses to this question fell into three categories:

- jurisdictions that follow the classic fiduciary approach that duties always and exclusively relate to the company (and its shareholders) on whose board the director sits;
- jurisdictions with special frameworks that recognize exceptions to the classic fiduciary approach for certain group companies and explicitly regulate such exceptions; and
- jurisdictions where there have been efforts to somehow reconcile the classic approach to the group context without explicitly creating a separate group company regime modifying directors' duties and/or to whom they are owed.

4. Key Indicators for Asia and the Pacific 2020

The Asian Development Bank (ADB) provided updated statistics on a comprehensive set of economic, financial, social, and environmental measures as well as select indicators for Sustainable Development Goals. The report covers the 49 regional members of ADB and discusses trends in development progress and the challenges to inclusive and sustainable development that are likely to be amplified by the effects of the coronavirus disease (COVID-19) pandemic.

The report covers:

Part I. Sustainable Development Goals (SDGs): comprise 169 targets across 17 goals to be achieved by 2030. This section includes data tables and brief analyses of trends of select indicators for the SDGs for which data are available. The indicators are presented according to the United Nations SDG global indicator framework.

Part II. Region at a Glance: Regional Trends and Tables are grouped into eight themes - People; Economy and Output; Money, Finance, and Prices; Globalization; Transport and Communications; Energy and Electricity; Environment; and Government and Governance. There is a brief analysis of key trends of selected indicators highlighting important recent developments in Asia and the Pacific.

Part III. Global Value Chains (GVCs): Select indicators depict Asia and the Pacific economies' participation in GVCs and their sector-specific comparative advantage in terms of exports. Participation in GVCs involves cross-border trading transactions of inputs used in different stages of production—from raw materials, to intermediate inputs, up to the final products purchased by the end consumers.

5. Asia Bond Monitor—September 2020

This Asian Development Bank Report provides updates on financial conditions and market developments amid the coronavirus disease (COVID-19) pandemic. It also discusses recent trends and changes in the investor profile in local currency bond markets in Asia; the rising use of digital payment during the pandemic; and environmental, social, and governance investments and their resilience in the COVID-19 era.

The September issue of the Asia Bond Monitor includes four special discussion boxes:

Box 1: Asian Bond Markets— Recent Trends and Developments. This box analyzes trends and changes in the investor profile in emerging East Asian bond markets since January 2020.

Box 2: Contactless Payment in Post-COVID Asia. This box discusses the increasing use and development of contactless payment technology in Asia as a result of the COVID-19 pandemic.

Box 3: Environmental, Social, and Governance Investment Growth amid the COVID-19 Crisis. This box examines the growth of ESG investment in Asia since the onset of COVID-19.

Box 4: Is Green the New Gold? ESG Resilience during the COVID-19 Crisis. This box discusses the resilience of ESG funds during the COVID-19 crisis, which have thus far outperformed equity markets and exchange-traded funds globally.

"Leave No One Behind"

- transformative promise of the 2030 Agenda for Sustainable Development and UN's Sustainable Development Goals (SDGs).

Corporate Governance Leadership Skills

Director Training Program (DTP)

Fulfills SECP Requirements

- Delivered by a team of experienced faculty who have undergone IFC Training of Trainers
- Highest quality course content nationwide
- Flexible and speedy certification for professionals
- Share experiences in an environment conducive to learning
- CPD hours can be claimed

Dec 16, 17, 18

& 23, 24

2020

Online via Zoom

40% Discount for Self-Financed Ladies

In technical collaboration with International Finance Corporation WORLD BANK GROUP

Contact:
021-35306673 – 4 (Ext: 104)
Email: farhan@picg.org.pk,
lawrence.anthony@picg.org.pk

To view previous Advisory Updates, please click on the following link:
http://picg.org.pk/publications/

For questions/comments contact: shafaq@picg.org.pk
Suite No. 316, The Forum, Khayaban e Jami
Block 9, Clifton, Karachi- 75600
Phone: +92-21-35306673-4, Ext: 106