PICG

Pakistan Institute of Corporate Governance

PICG ADVISORY UPDATE-13

July 2018

GOVERNANCE, COMPLIANCE

& CORPORATE REPORTING

PICG
Pakistan Institute of Corporate Governance

The Update

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.

Compliance with applicable laws and regulations is fundamental to good governance. PICG's Advisory Update, therefore, aims at keeping our members updated with regards to the latest local and international governance-related changes to regulations, practices and corporate reporting.

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	Topic / Update link
1.	**Circulars/ Guidelines**			
i	SECP	Circular no.15 of 2018	July 17, 2018	Risk management & Control Guidelines for Asset Management Companies
ii	SECP & SBP	Circular no.14 of 2018 FD Circular No. 04 & 05 of 2018	July 11, 2018 & July 10 & 13, 2018	Corporate Social Responsibility- Contribution towards Construction of Dams http://www.sbp.org.pk/acc/2018/C5.pdf & http://www.sbp.org.pk/acc/2018/C4.pdf
2.	**Others**			
i	SECP	Press release	July 16, 2018	PICG Independent Directors Databank
ii	SECP	SRO 885(1)/2018	July 17, 2018	Delegation of Powers and functions relating to Listed Companies (Code of Corporate Governance) Regulations, 2017

International

Topic	Links
Corporate Governance Code- UK	FRC Revises UK Corporate Governance Code
Guidance on Board Effectiveness - UK	FRC Revises Guidance on Board Effectiveness
Corporate Governance Manual - Indonesia	2nd Edition - Indonesian Corporate Governance Manual
Commitments on Disability Inclusion - World Bank Group	World Bank Group Commitments on Disability-Inclusive Development

B. Synopsis of changes

Pakistan

1. Circulars/ Guidelines

a. Risk Management & Control Guidelines for Asset Management Companies

The Securities and Exchange Commission of Pakistan (SECP) has prescribed guidelines for the establishment of Risk Management Systems and Controls for Asset Management Companies (AMC's). The purpose of these guidelines is to provide a general framework of risk management for mitigating risks associated with management of Collective Investment Schemes (CIS).

The guidelines are based on international best practices and application of the same is flexible as AMCs can adapt them according to the size and complexity of their business.

These guidelines cover broad aspects of risk management such as:

i. risk governance,
ii. risk management process and procedures,
iii. investment risk management and
iv. operational risk management.

The various areas covered focus on identification of risks and its classification, stress testing, reporting and mitigation, thereby providing techniques and tools of risk management and formulation of policies/strategies to cope with disaster recovery and achieve the longer term objective of the CIS.

Boards generally form risk management committees to create a risk conscious culture in which risks are well understood and both the board and senior management should ensure that high priority is given to the implementation of effective operational risk management procedures and adherence to sound operating controls.

The guidelines aim to provide a useful reference for AMCs in developing and assessing their own risk management systems.

b. Corporate Social Responsibility- Contribution towards Construction of Dams

The Honorable Supreme Court of Pakistan via its Order in Constitution Petition No.57 of 2016, dated July 4, 2018, has directed concerned authorities to take immediate and effective measures to build Diamer-Bhasha dam and Mohmand dam. The order was issued as a consequence of the water shortage in the country as a result of which the Honorable Supreme Court has also appealed to all Pakistanis to donate for this national cause.

In this regard, the SECP has issued a circular, encouraging companies to contribute to the national cause as a part of their corporate social responsibility. The circular states that the construction of these dams is expected to not only help in meeting the water needs of the coming decades, but is also expected to increase the business activity leading to the boom in the corporate sector.

The Finance Division, Government of Pakistan, has opened:
Account No: 03-593-299999-001-4
Title: DIAMER BASHA AND MOHMAND DAM FUND–2018
IBN No: PK06SBPP0035932999990014

Similarly, the State Bank of Pakistan(SBP) has established the “Supreme Court of Pakistan’s Diamer Bhasha and Mohmand Dams Fund Account” for raising funds for the construction of the dams. The Fund shall receive donations/contributions from the general public, which shall be solely used for the purpose of construction of water reservoirs. The Fund shall be directly supervised by the Honorable Court and the account thereof will be operated by the Registrar of the apex Court. All the commercial and microfinance banks, and field office of SBP Banking Services Corporation shall open the account of the Fund at all their branches across the country. The receipts of the Fund shall not be subject to regulatory transaction limits and no charges shall be recovered from the donors/contributors. The overseas Pakistanis may deposit their contributions with the Pakistan’s Mission in the relevant country. The Ministry of Foreign Affairs may, in consultation with the State Bank, issue the accounting procedure for repatriation of funds to the SBP nostro account(s). Further Banks have been advised to ensure meticulous compliance and extend full cooperation to donors in deposit of their donations/contributions. In case of lapses and non-compliance, the President, the Group Operation Chief, Regional Manager and Branch Manager shall be personally responsible.

This initiative is expected to go a long way in resolving the water crises being faced by the country.

2. Others

a. Independent Directors’ Databank - Now Operational

The databank of independent directors maintained by the Pakistan Institute of Corporate Governance (PICG) has become operational.

The Companies Act, 2017 requires that independent directors appointed under any law, rules, regulations or code are to be selected from a databank containing names, addresses and qualifications of persons who are willing to act as independent directors maintained by an institute/body authorized by the SECP. In January 2018, the SECP asked the PICG to maintain such a databank and, thereafter, SECP notified the Companies (Manner and Selection of Independent Directors) Regulations, 2018 specifying the procedure for selection of independent directors from such databank.

Individuals who have successfully attained a certification under the directors training program from any institute authorized by SECP or who have obtained exemption from the requirement of directors training from the SECP can apply for inclusion in the databank. There is a onetime nominal charge from individuals for this service. Registrants can apply online by accessing the PICG’s website and clicking on the independent directors’ link http://picg.org.pk/databank3 .

Companies desiring to appoint independent directors can also register online with PICG to access the databank on payment of a nominal annual subscription or a onetime access fee. Access to the databank will only be given to registered companies. The access will be controlled through issue of login ID and password to maintain confidentiality of information in the databank.

Due diligence required during the selection of independent directors will continue to rest with the company.

Companies are encouraged to ensure that all directors on their boards are compliant with the relevant regulations.

b. **Delegation of Powers and Functions relating to Listed Companies (Code of Corporate Governance) Regulations, 2017**

The SECP has delegated certain powers and functions of the Commission pertaining to compliance of NBFC's and Modarabas in respect of the Listed Companies (Code of Corporate Governance) Regulations, 2017, as follows:

i. **Powers/ Functions Delegated to Commissioner, Specialized Companies Division):**

Sr	Power/ Function being delegated	Regulation No
1	To **impose penalty for failure or refusal of a NBFC or Modaraba** to comply with or contravine the requirement of the regulations; or knowingly or willfully authorizing or permitting such failure refusal or contravention.	41
2	To **approve relaxation by a NBFC or Modaraba** from any requirements of the regulations in term of regulation 42 subject to such conditions as may be deemed fit.	42

ii. **Powers/ Functions Delegated to Executive Director Specialized Companies Division (Scd):**

Sr	Power/ Function being delegated	Regulation No
1	To assess the **suitability of a candidate for appointment as Head of Internal Audit of a NBFC or Modaraba**. [In case position of Executive Director (SCD) is vacant or he / she is not available at the place of posting due to any reason the powers and functions delegated to him / her shall stand delegated to the Commissioner (SCD) during the period of vacancy or unavailability].	24 (c)

International

a. The UK Corporate Governance Code - Revised

The Financial Reporting Council (FRC) has published the final 2018 edition of the Corporate Governance Code (the 2018 Code) and the associated Guidance on Board Effectiveness (refer para b, below), along with a feedback statement which includes a detailed comparison between the previous 2016 Code, and the 2018 Code. The Financial Reporting Council (FRC's) mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries.

The first version of the UK Corporate Governance Code was published in 1992 by the Cadbury Committee which defined corporate governance as 'the system by which companies are directed and controlled'. Over the years the Code has been revised and expanded to take account of the increasing demands on the UK's corporate governance framework.

The 2018 Code consists of an updated set of Principles that emphasise the value of good corporate governance to long-term sustainable success. By applying the Principles, following the more detailed provisions and using the associated guidance, companies should be able to demonstrate how the governance of the company contributes to its longterm sustainable success and achieves wider objectives. The Code does not set out a rigid set of rules; instead it offers flexibility through the application of Principles and through 'comply or explain' provisions and supporting guidance.

The main changes include:

Workforce and stakeholders: There is a new Provision to enable greater board engagement with the workforce to understand their views. The Code asks boards to describe how they have considered the interests of stakeholders when performing their duty.

Culture: Boards are asked to create a culture which aligns company values with strategy and to assess how they preserve value over the long-term.

Succession and diversity: To ensure that the boards have the right mix of skills and experience, constructive challenge and to promote diversity, the new Code emphasises the need to refresh boards and undertake succession planning and boards should consider the length of term that chairs remain in post beyond 9 years. The new Code strengthens the role of the nomination committee on succession planning and establishing a diverse board. It identifies the importance of external board evaluation for all companies. Nomination committee reports should include details of the contact the external board evaluator has had with the board and individual directors.

Remuneration: To address public concern over executive remuneration, the new Code emphasises that remuneration committees should take into account workforce remuneration and related policies when setting director remuneration. Importantly formulaic calculations of performance-related pay should be rejected. Remuneration committees should apply discretion when the resulting outcome is not justified.

The new Code, sets out a number of recommendations aimed at improving culture and trust in business, of which it suggests at least one be applied. They include having a director appointed from the workforce, a formal workforce advisory panel and a designated non-executive director.

The 2018 Code will apply to accounting periods from January 2019 and is applicable to all companies with a premium listing, with the first compliant Annual Reports due to be published in 2020.

b. Revised Guidance on Board Effectiveness – UK

The FRC has published a fully revised 'Guidance on Board Effectiveness (the Guidance)' to support the revised 2018 UK Corporate Governance Code. This replaces the 2011 version of the same. The primary purpose of the Guidance is to stimulate boards' thinking on how they can carry out their role and encourage them to focus on continually improving their effectiveness.

The Guidance is not mandatory and is not prescriptive but contains suggestions of good practice to support directors and their advisors in applying the Code and boards are encouraged to refer it alongside the Code. The Guidance is also expected to be helpful to a wide range of stakeholders when assessing the actions taken by the board in relation to the governance of the company. The tools and techniques for board effectiveness suggested in the Guidance will assist companies in applying the Principles in the Code and help when it comes to illustrating in the annual report.

The structure of the Guidance follows the structure of the Code. It primarily covers matters related to:

- board effectiveness dealt within Sections 1-3 of the Code, and
- remuneration dealt within Section 5 of the Code.
- Section 4 of the Code is covered only briefly in the Guidance as the FRC has issued separate, in-depth guidance documents on audit, risk and internal control.

The Guidance now includes some of the procedural aspects of governance which, historically, were covered by the Code, as such former features of the Code are now well-established as good practice and compliance levels are high.

c. Indonesian Corporate Governance Manual - 2nd Edition

The 2nd edition of the Indonesia Corporate Governance Manual (CG Manual) was published in June 2018. The CG Manual was originally commissioned by the International Finance Corporation (IFC) as part of the Indonesia Corporate Governance Program that IFC is implementing in Indonesia since 2012. As part of this Program, IFC had established a formal cooperation with Otoritas Jasa Keuangan (OJK) and the development of this CG Manual is a key product of this cooperation. The IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries to create opportunity for people to escape poverty and improve their lives.

The CG Manual is meant to help Indonesian companies at different developmental stages to better understand the value and benefits of good corporate governance. It gives an overview to help Indonesian companies improve corporate governance practices by highlighting case studies and share best practices to enhance performance and boost access to finance, and provides a bridge between internationally recognized best practices and local laws, codes and regulations. The CG Manual targets a wide spectrum of stakeholders, such as directors and commissioners, academics, policymakers, corporate governance experts and more generally, individuals and institutions interested to know about the corporate governance framework in Indonesia.

The CG Manual is divided over 15 chapters focusing on key corporate governance issues. Examples, illustrations, and checklists have also been included to make the manual more clear and useful.

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d. Commitments on Disability Inclusion - World Bank Group

The World Bank Group (WBG) announced new 'Commitments on Disability Inclusion' at the Global Disability Summit, co-hosted by the United Kingdom Department for International Development (DfID) in partnership with the Government of Kenya and the International Disability Alliance. The WBG, along with other summit participants, announced its set of ten commitments to accelerate global action for disability-inclusive development in key areas such as education, digital development, data collection, gender, post-disaster reconstruction, transport, private sector investments, and social protection.

This is in line with the WBG's strategy to develop human capital around the world, aiming to help developing countries invest more – and more effectively – in persons with disabilities and in accessible services, as more than one billion people worldwide – including an estimated 800 million in developing countries – experience some form of disability, according to the World Report on Disability by the World Bank (WB) and World Health Organization.

The ten commitments include:

1. Ensuring that all WB-financed education programs and projects are disability-inclusive by 2025.
2. Ensuring that all WB-financed digital development projects are disability sensitive, including through the use of universal design and accessibility standards.
3. Scaling up disability data collection and use, guided by global standards and best practices, such as using the Washington Group's Short Set of Questions on Disability.
4. Introducing questions on disability into the Women, Business and the Law survey to better understand the economic empowerment of women with disabilities.
5. Ensuring that all projects financing public facilities in post-disaster reconstruction are disability-inclusive by 2020.
6. Ensuring that all WB-financed urban mobility and rail projects that support public transport services are disability-inclusive by 2025.
7. Enhancing due diligence on private sector projects financed by the IFC regarding disability inclusion.
8. Ensuring that 75 percent of WB-financed social protection projects are disability-inclusive by 2025.
9. Increasing the number of staff with disabilities in the WBG.
10. Promoting the Disability Inclusion and Accountability Framework among World Bank staff as a way to support the WB's new Environmental and Social Framework (ESF).

"We know that equality of individual ability has never existed and never will, but we do insist that equality of opportunity still must be sought."

— Franklin D. Roosevelt

EFFECTIVE MINUTE TAKING

About the Program

Taking meeting minutes can be a stressful experience for many as it can be difficult to know what to put in and what to leave out. Minutes form a vital part of our communication. For these to be effective there must be an accurate record of the main points discussed, detail resulting actions along with the person or persons responsible for them.

PICG has introduced this half day workshop which aims to provide practical guidelines for overcoming most of the problems faced by minute takers and achieving accuracy in the minute-taking process. That process includes not just the note-taking phase and the writing up of the final minutes, but all the activities surrounding these key phases which are essential for a successful outcome primarily for people who are currently required to take minutes as part of their role and want an opportunity to reassess their minute-taking skills, those new to their roles with little experience of minute taking at meetings, and those who expect to be called upon to take minutes in the near future.

The outcomes of the workshop include adopting a proactive approach towards the minute-taking role, with a view to sharpening existing skills sets and building the confidence to embrace new ideas.

Who should attend

- Company Secretaries
- Company Secretarial Teams
- Compliance Experts
- Legal Experts

Date: August 17, 2018
Price: Rs. 15,000/-*
To register:
https://goo.gl/forms/ySSrK5sf6j8G3Mrm2
T: 35306673 & 4 (Ext 104)
E: usama.sajid@picg.org.pk;
hassan@picg.org.pk;
najia.ansari@picg.org.pk

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*Prices are exclusive of any taxes that may be levied on this or other services. PICG reserves the right to recover all or part of these

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