



**PICG ADVISORY UPDATE 15**  
**SEPTEMBER 2018**

**GOVERNANCE, COMPLIANCE  
& CORPORATE REPORTING**

## 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
<b>1. Regulations/ Rules issued</b>				
i	SECP	SRO 1164(I)/2018	Sept 25, 2018	<a href="#">Futures Brokers (Licensing and Operations) Regulations, 2018</a>
<b>2. Guidelines</b>				
i	SECP	Guidelines	Sept 11, 2018	<a href="#">Guidelines on SECP (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018</a>
ii	SECP	Guidelines	Sept 4, 2018	<a href="#">Anti-Money Laundering/Countering Financing of Terrorism Guidelines for Non-Profit Organizations</a>
<b>3. Amendments</b>				
i	SECP	Circular No 17 of 2018	Sept 24, 2018	<a href="#">Amendments in Prudential Regulations for Modarbas</a>
ii	SECP	SRO 1092 (I)/2018	Sept 3, 2018	<a href="#">Amendment in 3rd Schedule</a>
iii	SECP	SRO 1081 (I)/2018	Aug 31, 2018	<a href="#">Draft Amendments to SECP (Anti Money Laundering and Countering Financing of Terrorism) Regulations 2018</a>
iv	SECP	SRO 1079 (I)/2018	Aug 30, 2018	<a href="#">Draft amendments to the Intermediaries (Registration) Regulations, 2017</a>

## International

Topic	Links
London Stock Exchange announcement for AIM companies	<a href="#">AIM companies application of Corporate Governance Code</a>
ACGA China CG Report 2018	<a href="#">Awakening Governance: The Evolution of Corporate Governance in China</a>

### **Improving Gender Diversity on Company Boards and Senior Management**

The Pakistan Institute of Corporate Governance (PICG) in collaboration with the Pakistan Business Council (PBC) and International Finance Corporation (IFC), a member of the World Bank Group, jointly hosted 3 days of training sessions in Karachi:

**“The Value of Gender Diversity in Business Leadership”**  
followed by **“Women on Boards and in Business Leadership”**.

The event was well attended by the CEOs, board directors, and C-suite executives of listed companies and banks, as well as regulatory agencies.

Participants were trained on the business case for gender diversity in business leadership, navigating biases that women face in the workforce, and strategies for implementing change in the participants’ companies.

## **B. Synopsis of changes**

### **Pakistan**

#### **1. Regulations/ Rules issued**

##### **Futures Brokers (Licensing & Operations) Regulations, 2018**

The Securities and Exchange Commission of Pakistan (SECP) have notified the Futures Brokers (Licensing & Operations) Regulations, 2018 on September 25, 2018, applicable to ‘futures brokers’ dealing in futures contracts based on specified commodities and financial instruments offered by or traded on futures exchange other than a securities exchange. The regulations will come into force at once.

The regulations have been divided into the following sections:

- Licensing requirements for futures broker
- Conduct of a futures broker
- Accounting and audit

In addition to the information and procedure required to obtain license and renewal as futures brokers, details on what constitutes fit and proper criteria for applicant, sponsors, directors and senior management officers of futures brokers have also been provided for in the said regulations.

#### **2. Guidelines**

##### **a. Guidelines on Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018**

The SECP had notified the SECP Anti Money Laundering and Countering Financing of Terrorism (AML/CFT) Regulations, 2018, via SRO 770 (I)/2018 in June this year, to prevent and combat money laundering and terrorism financing. Now, in order to supplement the said regulations and elaborate on the general requirements of the legislation to help regulated persons (RPs) in understanding their AML/CFT obligations and establishing an effective AML/CFT regime, the SECP has issued Guidelines.

The Guidelines reflect the 40 recommendations and guidance papers issued by the Financial Action Task Force<sup>1</sup> and require RPs to adopt a risk-based approach as opposed to the previous ‘one size fits all’ approach.

The AML/CFT program entails:

- i. identification and assessment of ML/TF risks in relation to:
  - customers;
  - country or geographic area;
  - products, services and transactions; and
  - delivery channels
- ii. designing and implementing policies, controls and procedures to manage and mitigate the ML/TF risks,
- iii. evaluation of mitigating controls and
- iv. monitor the implementation of systems.

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<sup>1</sup> The Financial Action Task Force (FATF), an independent inter-governmental body, has issued international standards containing recommendations to combat money laundering and the financing of terrorism and proliferation.’ The FATF recommendations require countries to take measures to prevent the misuse of legal persons for money laundering and terrorist financing, and ensure that there is adequate, accurate and up-to-date information available with the companies on the ultimate (actual) beneficial ownership and control of legal persons that can be accessed in a timely manner by competent authorities. Pakistan is a member of the Asia/Pacific Group on Money Laundering (APG) - a FATF Styled Regional Body (FSRB) and is required to adopt FATF standards as per membership obligations, and also to comply with the UN resolutions.

RPs are required to take enhanced measures where risks are higher for example high-risk countries, politically exposed persons (PEPs), legal persons or legal arrangement and should update risk assessment every 12 to 18 months.

An effective AML/CFT governance and compliance regime requires the board of directors to oversee the policies of risk, risk management and compliance. Further, there should adequate systems, internal policies, procedures and controls, customer due diligence measures, record keeping procedures; group-wide AML/CFT programs; screening procedures and employee training program along with policies and procedures to prevent the misuse of technological development in ML/TF schemes. In addition, the business unit; AML/CFT chief officer and internal audit function should be equipped with resources for independent evaluation of the effectiveness of compliance with AML/CFT policies and procedure.

#### **b. AML/CFT Guidelines for Non-Profit Organizations (NPOs)**

In line with SECP's aim of implementing an AML/CFT regime in its regulated sectors, the SECP has issued AML/CFT Guidelines specifically for Non-Profit Organizations (NPOs). These Guidelines have been issued on the basis of the recommendations of the Financial Action Task Force (FATF) while also keeping in view the evolving threats and challenges faced by the NPO sector in the country.

The Guidelines shall assist NPOs licensed under section 42 of the Companies Act, 2017, in combating money laundering and terrorism financing and may also be adopted by other stakeholders such as:

- i. Others NPOs registered under different Provincial laws
- ii. Regulators of NPOs
- iii. Supervisors of NPOs
- iv. Civil society

The Guidelines contain an elaborate explanation of the terrorist financing process, AML/CFT risk factors for NPOs, fundamental principles of good practice, measures to enhance good governance and ensure transparency and financial accountability, and outlines red flags/high risk indicators, including illustrative characteristics of high-risk NPOs. Further, policies, procedures and internal controls for NPOs to comply with the AML/CFT framework and international best practices have been provided for in the Guidelines to increase adherence to applicable standards and recommendations and also enhance the level of understanding about the due diligence required with respect to AML/CFT in the NPO sector.

These Guidelines are also expected to compliment the effective implementation of the 'Associations with Charitable and not for Profit Objects Regulations, 2018', issued by the SECP earlier.

### 3. Amendments

Sr	Name of Regulations / Rules	Effective date/ comment	Description									
<b>Amendments made</b>												
1	Amendments in Prudential Regulations for Modarbas	Sept 24, 2018	<p>SECP has amended Regulation no.4 of Part III of the Prudential Regulations for Modarabas, pertaining to “financial indicators of the clients” whereby all Modaraba companies have been directed to ensure that their credit policy emphasizes higher credit standards and provides full guidance to management about current ratio requirements for various categories of clients along with the corresponding risk mitigates, etc, acceptable to the Modarabas.</p> <p>Modarabas shall prescribe a minimum current ratio under the credit policy, for each category of client, keeping in view:</p> <ul style="list-style-type: none"> <li>• the quality of the current assets,</li> <li>• nature of the current liabilities,</li> <li>• nature of industry to which client belongs to,</li> <li>• average size of current ratio of that industry, and</li> <li>• appropriateness of risk mitigates available to the Modarabas, etc.</li> </ul> <p>Accordingly, at the time of allowing fresh exposure/ enhance/ renewal, the Modaraba shall ensure that the current assets to current liabilities ratio of the client is not lower than such ratio as may be required under the credit policy of the Modaraba</p>									
2	Third Schedule to the Companies Act, 2017		<p>The following financial reporting options for Medium and Small Sized Companies have been introduced by way of an amendment to the Third Schedule:</p> <table border="1" data-bbox="613 1350 1425 1686"> <thead> <tr> <th data-bbox="613 1350 816 1402">Type</th> <th data-bbox="816 1350 1076 1402">Required to follow</th> <th data-bbox="1076 1350 1425 1402">May opt to follow</th> </tr> </thead> <tbody> <tr> <td data-bbox="613 1402 816 1560">Medium Sized Companies</td> <td data-bbox="816 1402 1076 1560">IFRS for SMEs &amp; Accounting Standards for NPOs</td> <td data-bbox="1076 1402 1425 1560">IFRS notified by the Commission for preparation of financial statements.</td> </tr> <tr> <td data-bbox="613 1560 816 1686">Small Sized Companies</td> <td data-bbox="816 1560 1076 1686">AFRS for SSEs</td> <td data-bbox="1076 1560 1425 1686">IFRS notified by the Commission or IFRS for SMEs</td> </tr> </tbody> </table>	Type	Required to follow	May opt to follow	Medium Sized Companies	IFRS for SMEs & Accounting Standards for NPOs	IFRS notified by the Commission for preparation of financial statements.	Small Sized Companies	AFRS for SSEs	IFRS notified by the Commission or IFRS for SMEs
Type	Required to follow	May opt to follow										
Medium Sized Companies	IFRS for SMEs & Accounting Standards for NPOs	IFRS notified by the Commission for preparation of financial statements.										
Small Sized Companies	AFRS for SSEs	IFRS notified by the Commission or IFRS for SMEs										

Sr	Name of Regulations / Rules	Effective date/ comment	Description
<b>Draft Amendments Proposed</b>			
1	SECP (Anti Money Laundering & Countering Financing of Terrorism) Regulations 2018	Comment within 30 days (Sept 30, 2018)	<p>Amendments proposed to direct regulated persons [ie.securities brokers, insurance companies, Non-Banking Finance Companies (NBFCs) and Modarabas] not to open accounts of new customers and terminate business relationship with existing customers where they are unable to satisfactorily complete required customers due diligence (CDD) measures.</p> <p>Under the draft regulations, a regulated person shall not form business relationship with entities and/or individuals that are:</p> <ul style="list-style-type: none"> <li>• proscribed under the United Nations Security Council Resolutions and adopted by the Government of Pakistan;</li> <li>• proscribed under the Anti Terrorism Act, 1997 and</li> <li>• associates/facilitators of persons mentioned above.</li> </ul> <p>Further, counter measures against high risk countries proportionate to the risk shall be adopted; and the SECP shall direct regulated persons to take appropriate measures with respect to customers of countries where there is weakness in the AML/CFT systems, as advised by the Federal Government.</p>
2	Intermediaries (Registration) Regulations, 2017	Within 14 days (Sept 13, 2018)	<p>Similarly in line with SECP's aim to ensure appropriate measures to counter money laundering or terrorist financing activities in every regulated sector, the following new clauses have been proposed to be inserted in the Intermediaries (Registration) Regulations:</p> <p>“(iia) ensure that while acting as company formation agent or providing other services, their clients are not involved in any type of suspicious activities or transactions implying money laundering or terrorist financing activities in line with the relevant Financial Action Task Force (FATF) recommendations;</p> <p>(iib) ensure that the client is not placed on the United Nations Security Council (UNSC) list of designated persons or entities linked to terrorist financing or against whom a ban, sanction or embargo subsists, as available on its website;”</p>

**a. Application of the Corporate Governance Code - AIM companies**

AIM (formerly the Alternative Investment Market) is a sub-market of the London Stock Exchange that was launched in 1995. It allows smaller, less-viable companies to float shares with a more flexible regulatory system than is applicable to the main market. AIM helps smaller and growing companies raise the capital they need for expansion.

The London Stock Exchange has announced that with effect from September 28, 2018, all AIM companies will need to report which recognised corporate governance code they have decided to apply. The updated AIM Rules for Companies state that each AIM company must from admission maintain a website on which the following information should be available, free of charge:

- details of a recognised corporate governance code that the board of directors of the AIM company has decided to apply;
- how the AIM company complies with that code; and
- where it departs from its chosen corporate governance code an explanation of the reasons for doing so.

The Exchange has not prescribed a list of recognised codes so AIM companies have a range of options to suit their specific stage of development, sector and size. The Exchange has, however, identified benchmarks for AIM company codes, such as the QCA Corporate Governance Code<sup>2</sup> and the UK Corporate Governance Code.

After 28 September 2018, an AIM company will have to review its corporate governance disclosures annually, typically at the same time as the company prepares its annual report and accounts. The company's website shall also include the date when it last reviewed its compliance with its chosen code and update its AIM Rule 26 (ie. company information) disclosures to remain accurate.

**b. Awakening Governance: The Evolution of Corporate Governance in China. S<sup>3</sup>**

The Asian Corporate Governance Association (ACGA) is an independent, non-profit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia. ACGA was founded in 1999 from a belief that corporate governance is fundamental to the long-term development of Asian economies and capital markets.

The ACGA recently released a report into corporate governance in China which describes features of the corporate governance system in China including corporate leadership structures (the role of Party Committees, boards of directors, supervisory boards, independent directors and audit committees) as well as the similarities and differences between state owned enterprises (SOEs) and privately owned enterprises (POEs).

The report summarises the results of 2 surveys carried out by ACGA, assessing the perceptions of respondents (foreign institutional investors and separately, China-listed companies) towards corporate governance in China. It contains a series of practical recommendations to regulators, companies and investors for improvement.

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<sup>2</sup> The Quoted Companies Alliance (QCA) issued a revised and fully updated QCA Corporate Governance Code in April. The QCA Code is tailored to meet the needs of small and mid size quoted firms.

<sup>3</sup> World Bank Group. 2018. *Women, Business and the Law 2018*. Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0 IGO.

# DIRECTOR ORIENTATION WORKSHOP



Good Corporate Governance is a balance of power between Shareholders, Directors and Managers. It is about making corporate leadership more accountable to shareholders while recognizing that other stakeholders also contribute to the long-term success of the organization.

Corporate Governance is no longer a local or a national issue for directors and businesses. Shareholders all over the world are exerting a greater level of scrutiny over corporate leadership and its performance. Complex legislations have been introduced in the developed countries, compliance with which is increasingly being made mandatory for businesses.

To assist the corporate leadership of Pakistan in responding to these challenges, and to ensure continuous professional development at the highest corporate level, Pakistan Institute of Corporate Governance (PICG) conducts the "Directors Orientation Workshop" (DOW). It is a flexible and customized training program for individual companies which will be delivered by PICG faculty at the company premises.

## PROGRAM RATIONALE

To enhance the understanding of the board members about Corporate Governance in general, and about their role, authority and fiduciary duties as board members or as part of the senior management team.

## BENEFITS

- Fulfills criteria of 'Board Orientation' required under various Corporate Governance Codes issued by SECP, etc.
- Saving of directors' precious travel time to and from the training location
- Can be conducted in all the major cities in Pakistan
- PICG faculty bring years of practical experience and unique perspectives

## WHO SHOULD ATTEND

- Board Members (both established as well as newly appointed directors)
- Chief Executive Officers (CEO)
- Chief Financial Officers (CFO)
- Company Secretaries
- Potential Directors and Senior Management

## DURATION

One half day or one full day depending on the company requirements (held on the company premises).

## TRAINING INVESTMENT

### Full day workshop

Rs. 370,000/- for up to 10 participants.  
Rs. 30,000/- per additional participant.  
Discounted price for PICG members:  
Rs. 300,000/- for up to 10 participants.  
Rs. 25,000/- per additional participant

### Half day workshop

Rs. 250,000/- for up to 10 participants.  
Rs. 20,000/- per additional participant.  
Discounted price for PICG members:  
Rs. 200,000/- for up to 10 participants.  
Rs. 15,000/- per additional participant.

\*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

\*\*Five star boarding and lodging and economy plus return fare is charged for an out of city program.

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name in the databank of  
Independent Directors?*

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he/she has not completed the  
Directors Training Programme**

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