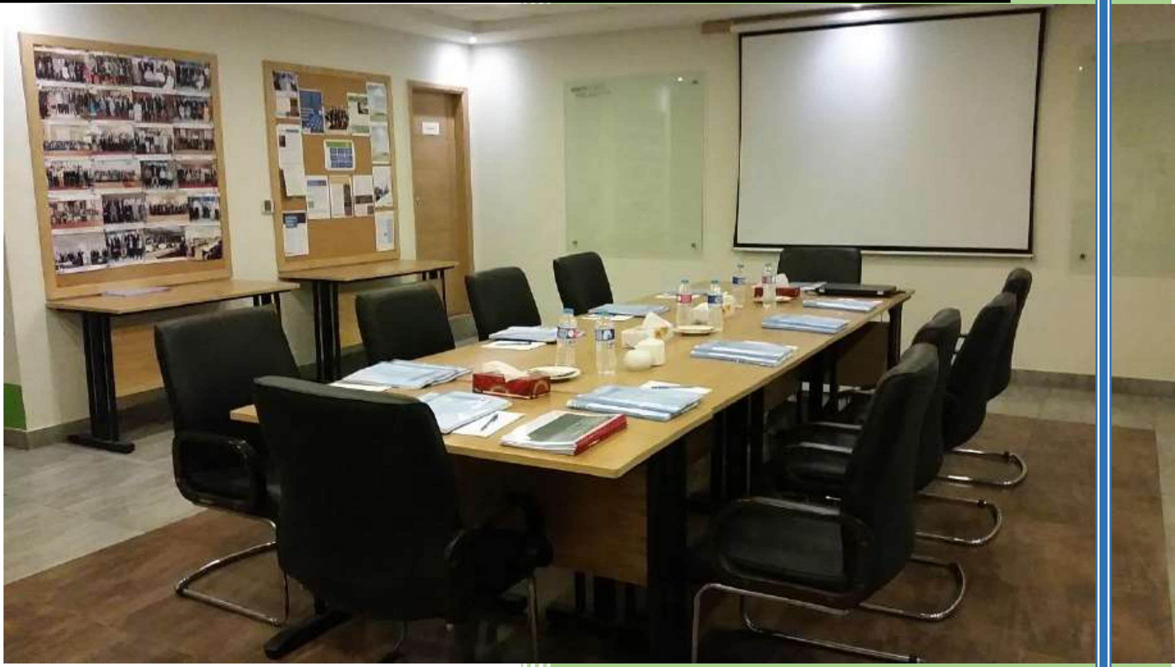
JANUARY 2019

PICG ADVISORY UPDATE – No.19



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 #	By	Reference	Date	Topic / Update link
1. Directive				
I	SECP	S.R.O. 31 (I)/2019	Jan 8th	Draft Cyber Security Framework for Insurance Sector
2. Circular				
I	SECP	Circular 2 of 2019	Feb 1st	Placement of SECPs "SDMS' logo on Website of Public Sector Company
3. Others				
I	SECP	S.R.O. 46 (I)/2019	Jan 9th	Delegation of powers of the Commission under the Public Sector Companies (Corporate Governance) Rules, 2013

International

Topic	Links
Financial Reporting Council (FRC) consultation on draft revisions to the UK Stewardship Code	Consultation on Proposed Revision to the UK Stewardship Code
World Bank Report comparing business regulation in 190 economies	Doing Business 2019 Training For Reform
World Bank Report on financial flows, trends in external debt and other major financial indicators	International Debt Statistics 2019
OECD Report on the Impact Imperative for Sustainable Development	Social Impact Investment 2019

B. Synopsis of changes

Pakistan

1. **Directive**

Draft Cyber Security Framework for Insurance Sector

The SECP has issued proposed directives to the insurance sector for protection against the increased probability of cyber risk[1] as a result of the increasing reliance on technology for business operations and expansion of financial technology.

All life and non-life insurers including family and general takaful operators are required to obtain cyber risk insurance to cover their own cyber risks and mitigate losses or damages from a variety of cyber incidents, including data breaches, business interruption, and network damage. In this regard, insurance companies must develop a cybersecurity strategy and put in place a framework to mitigate the inherent cyber risk.

The cyber risk insurance is expected to protect insurers against the claims arising from cyber attacks and the insurer's cyber security framework should support and promote both its operational security and the protection of policyholder's data. Further, insurance companies have been directed to appoint a senior executive as Chief Information Security Officer (CISO) having adequate qualification and experience, who will be responsible for implementation of the overall cybersecurity framework within the organization (Note: Head of Information & Technology Department of the Insurer cannot be appointed as the CISO).

Insurance companies may consider the following core technical standards and best practices to manage cyber risks when developing a cybersecurity framework and putting in place related mechanisms to counter the same:

- National Institute of Standards and Technology (NIST) Cybersecurity Framework,
- Information Systems Audit and Control Association (ISACA)‟s COBIT (Control Objectives for Information and Related Technologies)
- ISO 27000 series.

Once the final directive is issued (after considering public responses), insurers would be required to submit 'cyber security framework assessment reports' by April 30 of every year to the SECP.

2. **Circulars**

Placement of SECPs "SDMS' logo on Website of Public Companies

All public companies are required to maintain a functional website as a result of a notification issued by SECP via SRO 634(1)/2014 dated July 10, 2014. The notification was followed by guidelines to facilitate understanding of the given requirement. Later, subsequent notifications were issued requiring public companies to display the web link and logo of SECP's investor education portal "Jamapunji" at a prominent place on their homepage.

[1] Cyber risk covers 'any risks that emanate from the use of electronic data and its transmission, including technology tools such as the internet and telecommunications networks. It also encompasses physical damage that can be caused by cybersecurity incidents, fraud committed by misuse of data, any liability arising from data storage, and the availability, integrity, and confidentiality of electronic information be it related to individuals, companies, or governments.'

The SECP has again currently issued a circular further directing all public companies to place the following on their website:

i. information regarding their compliant handling cell and relevant contact person prominently - as a Primary Point of Contact; and

ii. revised logo of 'SECP queries and complaints handling' along with a disclaimer on the required format in the investor related section of their respective websites only instead of placing it on the main/home page - as a Secondary Point of Contact.

The disclaimer states:

"In case your complaint has not been properly redressed by us, you may lodge your complaint with Securities and Exchange Commission of Pakistan (the "SECP"). However, please note that **SECP will entertain only those complaints which were at first directly requested to be redressed by the Company and the company has failed to redress the same.** Further, the complaints that are not relevant to SECP's regulatory domain/competence shall not be entertained."

In this regard, all the regulated persons are advised to ensure compliance with the above by March 2, 2019.

3. Others

Delegation of powers of the Commission under the Public Sector Companies (Corporate Governance) Rules, 2013

SECP issued a notification delegating the following powers and functions of the Commission under the Public Sector Companies (Corporate Governance) Rules, 2013(PSC Rules):

PSC Rule #	Power	Now to be exercised by
Other than listed companies **(except for insurance companies and non-banking finance companies or notified entites)**		
24(3)	To relax any provision of the rules subject to such conditions as deemed fit to be imposed.	The Commission (previously with Registrar of Companies)
All Companies		
25	Power to impose fine for contravention of the rules.	Registrar of Companies-Corporatization & Compliance Department (CCD)

The current notification shall not affect any action taken or done under any previous notifications and any pending proceedings or applications shall stand transferred to the delegated authority mentioned above who shall proceed with the matter as it stands prior to the coming into the effect of the current notification.

International

a. UK Stewardship Code - Consultation on Draft Revisions

The Financial Reporting Council (FRC) has published a consultation on draft revisions to the UK Stewardship Code. The revised Code is expected to come into force in July 2019.

When the Stewardship Code was initially published in 2010, it was the first of its kind. There are now more than 20 stewardship codes globally. The international stewardship codes have introduced new requirements, including commitments to adequate resourcing for stewardship and expectations to consider ESG issues. The FRC's proposals for a revised UK Code (the draft 2019 Code) adopt international practices and reflects the requirements of the 2nd EU Shareholder Rights Directive (SRD II).

Summary of key changes proposed to the 2019 Stewardship Code:

1. Stewardship – A new definition of stewardship identifies the primary purpose as being to look after the assets of beneficiaries that have been entrusted to the care of others. It broadens the scope of the Code to include investment decision making and investment in assets other than listed equity.

2. Purpose and objectives – Signatories will be asked to establish an organisational purpose, strategy, values and culture that enable them to fulfil their stewardship objectives. Their stewardship objectives must enable them to fulfil their obligations to their clients or beneficiaries. The focus on purpose is intended to ensure that effective stewardship behaviours are embedded across their business.

3. Integration of stewardship and investment approach – The draft Code sets higher standards for asset owners and asset managers regarding how they integrate their stewardship responsibilities into their investment processes, including investment decision making, mandate design and other activities.

4. Stewardship beyond listed equity – The draft Code requires signatories to use the resources, rights and influence available to them to exercise stewardship, no matter how capital is invested.

5. ESG issues – The draft Code reflects the significant developments that have taken place in sustainable finance, responsible investment and stewardship since 2012. Signatories are expected to take into account material ESG factors, including climate change, when fulfilling their stewardship responsibilities. The Code aims to encourage greater demand for an engaged approach to stewardship and investment decision making which is aligned to the investment time horizons of beneficiaries.

6. Clear expectations of different entities in the investment chain – The draft Code sets out more clearly the expectations for different entities in the investment community, such as asset owners, asset managers and those who provide services to the institutional investment community, including: investment consultants and proxy advisers.

7. Restructuring of the Code – The structure of the draft Code mirrors the UK Corporate Governance Code, with numbered sections, principles and provisions accompanied by supporting guidance.

8. More rigorous reporting requirements – All signatories will be required to make public disclosures about their stewardship activities and their assessment of how effectively they have achieved their stated objectives. Reporting will now be in two parts:

- a Policy and Practice Statement upon signing the Code, and
- an annual Activities and Outcomes Report.

b. Doing Business 2019

“”Doing Business” is a World Bank Flagship Report and the 2019 edition is the 16th one in the series. The report investigates regulations that enhance business activity and those that constrain it. It also presents quantitative indicators on business regulation and the protection of property rights that can be compared over time across 190 economies.

The Report covers regulations affecting 11 areas of the life of a business. Ten of these areas are included in this year’s ranking on the ease of doing business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. (Labor market regulation is also measured but it has not been included in this year’s ranking).

The indicators are used to analyze economic outcomes and identify what reforms of business regulation have worked - where and why; and is aimed to help governments diagnose issues in administrative procedures and correct them. The report measures complex regulatory processes by zeroing in on their quantifiable components, which can be contested, compared—over time and across economies—and, ultimately, reformed.

The main findings of the report are:

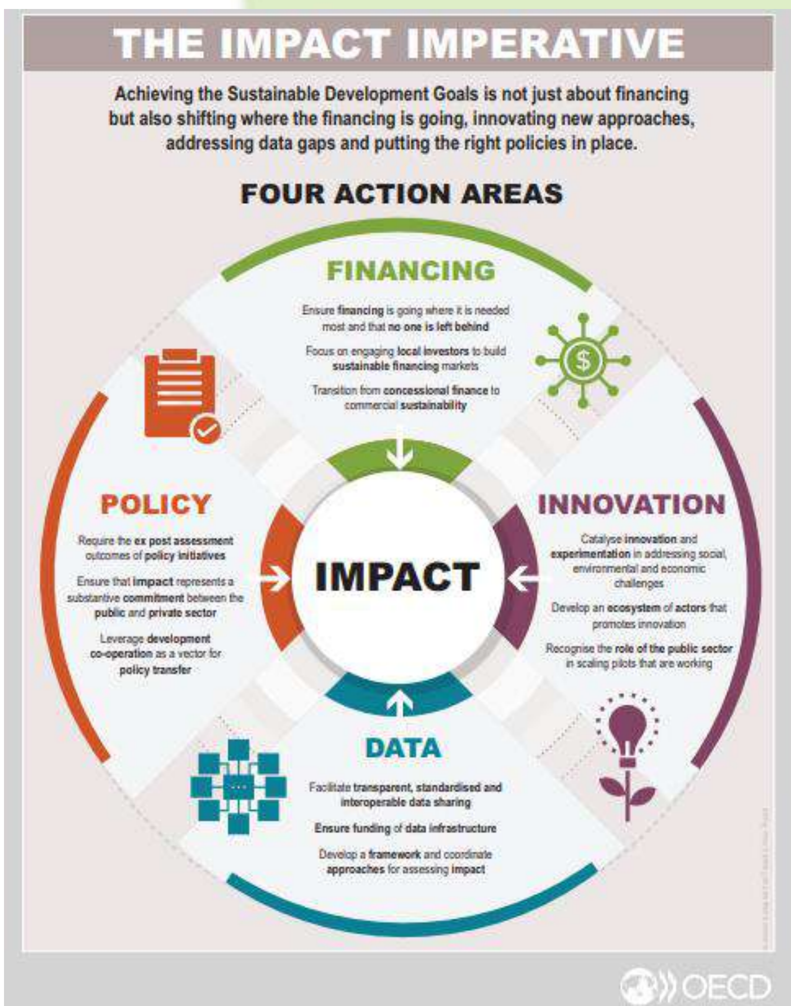
- A record of 314 regulatory reforms were reviewed between June 2, 2017, and May 1, 2018. Worldwide, 128 economies introduced substantial regulatory improvements making it easier to do business in all areas measured.
- The economies with the most notable improvement are Afghanistan, Djibouti, China, Azerbaijan, India, Togo, Kenya, Côte d’Ivoire, Turkey and Rwanda.
- One-third of all business regulatory reforms were in the economies of Sub-Saharan Africa. With a total of 107 reforms, Sub-Saharan Africa once again has a record number this year.
- BRIC economies—Brazil, the Russian Federation, India and China—introduced a total of 21 reforms, with getting electricity and trading across borders as the most common areas of improvement.
- The 10 top economies in the ease of doing business ranking share common features of regulatory efficiency and quality, including mandatory inspections during construction, automated tools used by distribution utilities to restore service during power outages, strong safeguards available to creditors in insolvency proceedings and automated specialized commercial courts.
- Training opportunities for service providers and users are positively associated with the ease of doing business score. Similarly, increased public-private communication on legislative changes and processes affecting SMEs are associated with more reforms and better performance.

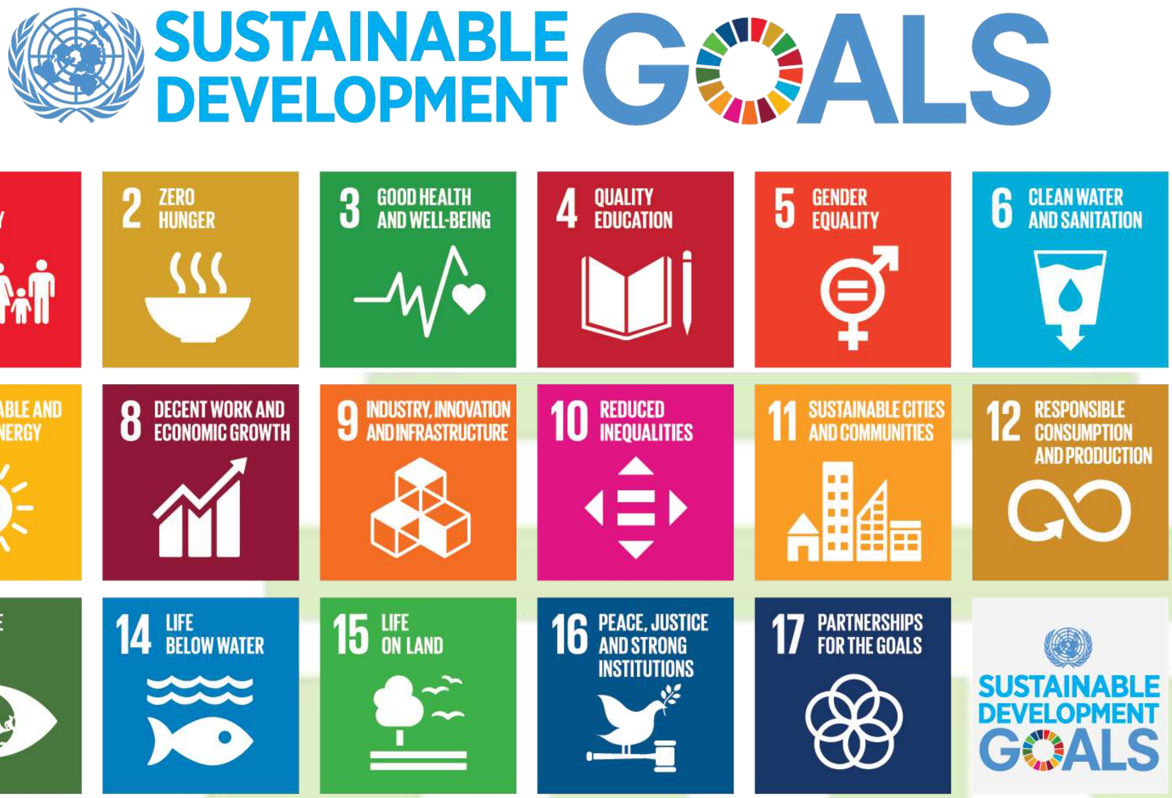
c. **Social Impact Investment 2019 - The Impact Imperative for Sustainable Development**

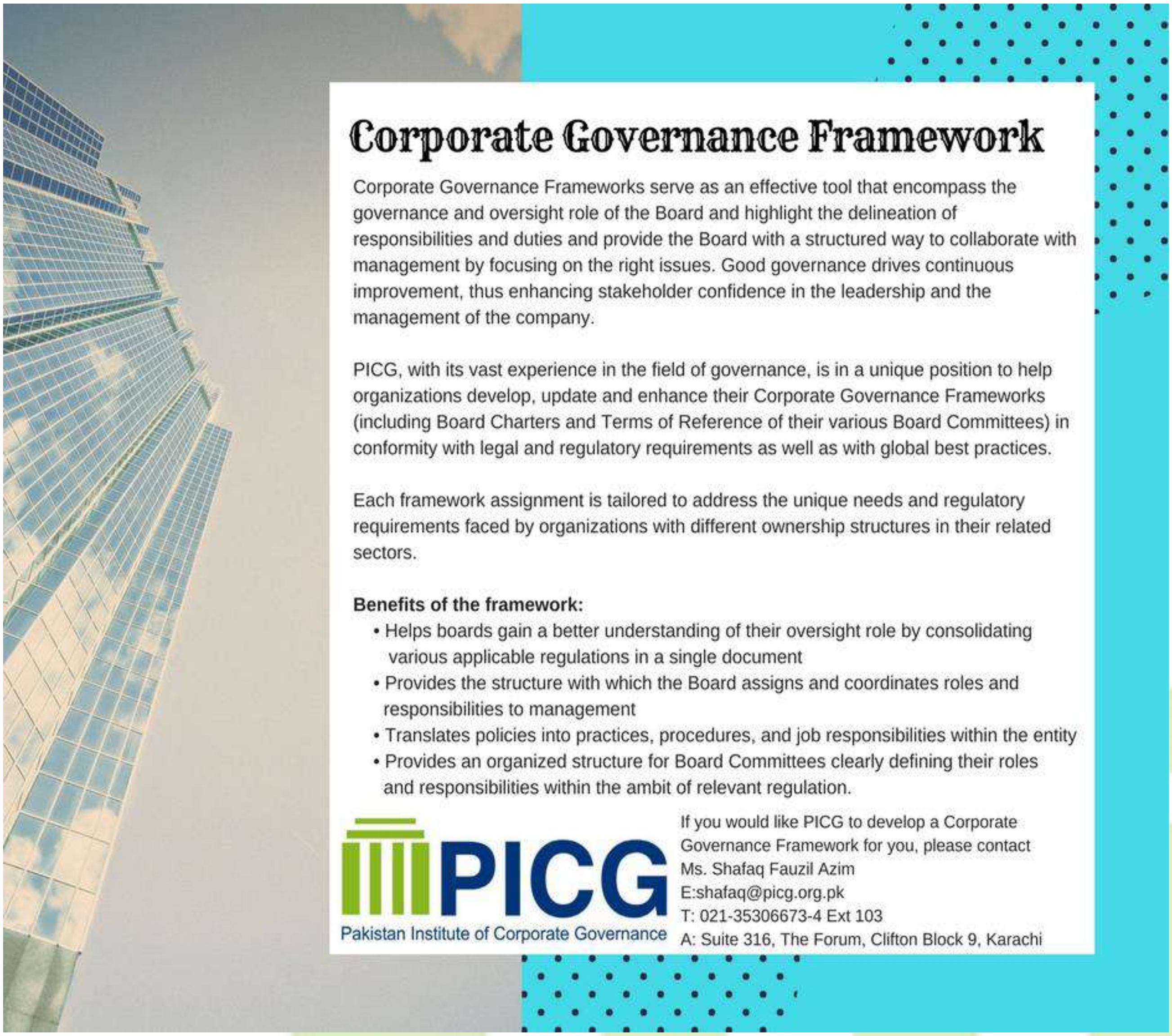
The OECD has issued a report on the impact imperative for sustainable development. The publication is a sequel to the OECD 2015 report on Social Impact Investment (SII), 'Building the Evidence Base', bringing new evidence on the role of SII in financing sustainable development. [Note: SII provides finance to organisations addressing social and/or environmental needs with the explicit expectation of measurable social and financial returns and is a way of channelling new resources towards Sustainable Development Goals (SDGs)]

The report highlights SII approaches globally, comparing regional trends, and assesses its prospects, with a special focus on data issues and recent policy developments. It also provides new guidance for policy makers in OECD and non-OECD countries, as well as providers of development co-operation, development financers, social impact investment practitioners and the private sector more broadly, to help them maximise the contribution of social impact investing to the UN's 2030 Agenda (ie. the 2030 Agenda for Sustainable Development adopted at the United Nations Sustainable Development Summit on 25 September 2015 which is a plan of action for people, planet and prosperity).

The report provides four sets of recommendations on financing, innovation, data and policy for delivering on the "impact imperative" of financing sustainable development:




SUSTAINABLE DEVELOPMENT GOALS
1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS
SUSTAINABLE DEVELOPMENT GOALS



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