PICG Advisory Update-4

February & March 2017

A. Summary Table

Pakistan

Sr #	Issued by	Reference	Date	Topic / Update link
1	SECP	Press Release	Feb 6, 2017	Companies Bill 2017 (as passed by the National Assembly)
2	SECP	S.R.O. 88 (I)/2017	Feb 9, 2017	Insurance Accounting Regulations, 2017
3	SECP	S.R.O. 89(I)/2017	Feb 9, 2017	Insurance Rules, 2017
4	SECP	S.R.O. 160(I)/2017	Mar 14, 2017	Amendment to Clearing Houses (Licensing and Operations) Regulations, 2016
5	SECP	Press Release	Mar 17, 2017	Companies (Appointment of Legal Advisers) (Amendment) Act, 2017
6	SECP	Press Release	Mar 30, 2017	SECP New User Registration System
7	SECP	Press Release	Mar 30, 2017	SECP's Anti-money laundering cell

International

Topic	Links
Significant Endorsement of Integrated Reporting <IR> by International Federation of Accountants	https://www.ifac.org/system/files/publications/files/PPP8-Enhancing-Organizational-Reporting-Jan-2017.pdf
OECD Corporate Governance Factbook	http://www.oecd.org/daf/ca/Corporate-Governance-Factbook.pdf
OECD Survey of Corporate Governance Frameworks in Asia	http://www.oecd.org/daf/ca/OECD-Survey-Corporate-Governance-Frameworks-Asia.pdf

B. Synopsis of changes

Pakistan

1. Companies Bill 2017

The Senate's Standing Committee on Finance recently discussed the draft of the Companies Bill 2017 (the 2017 Bill), that had earlier been passed by the National Assembly on February 6, 2017. The committee reviewed and discussed 81 out of 514 clauses of the 2017 Bill.

The Companies Ordinance 1984 required revamping in order to provide a modern legislative framework to the corporate sector of Pakistan. The proposed new law aims at being more facilitative by recommending various business measures to aid the ease of doing business and investor facilitation on the one hand, and providing for stringent enforcement powers, anti-fraud measures, etc., on the other, so as to encourage and promote corporatization in Pakistan based on best international practices. The 2017 Bill also encourages maximum participation of members in the decision making process of the company through use of modern electronic means of communication.

Consequently, if the 2017 Bill is approved by the Senate and assented to by the President, it will become law.

2. Insurance Sector Governance

Over the past few months, various initiatives have been taken by the SECP with a view to improve the overall operations and governance framework of Insurance Companies in Pakistan. The following is a summary of some of the initiatives that have been taken:

- The Code of Corporate Governance for Insurers, 2016[1] was formulated with the aim of providing a comprehensive corporate governance framework for the insurance sector, keeping in view international best practices. The Code was finalized and notified on November 9, 2016.

- A draft of the Insurance Bill[2] (proposed to replace the Insurance Ordinance, 2000) was formulated and placed on SECP's website on December 29, 2016 to elicit public comments, as part of SECP's project to strengthen the regulatory framework for insurance sector in Pakistan, with the technical assistance of the World Bank.

- Amendments were made to the Insurance Companies (Sound and Prudent Management) Regulations, 2012,[3] in December 2016, to further update "fit and proper' requirements for executives and management of insurance companies'.

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[1] Covered previously in PICG Advisory Update #2
[2] Covered previously in PICG Advisory Update #3
[3] Covered previously in PICG Advisory Update #3

- Insurance Accounting Regulations, 2017 (the Regulations) were issued in February 2017 with the aim of harmonizing local accounting standards of the insurance sector with international practices [ie.International Financial Reporting Standards (IFRS's) & International Accounting Standards (IAS's)]

  The Regulations are to be applied to Regulatory Returns and Published Financial Statements, with regulations for life insurance business and non-life insurance business being provided for in Part A and Part B of the Regulations, respectively. So far as recognition and measurement of assets, liabilities, expenses and revenues are concerned, every Insurer shall comply with IFRS's that have been adopted by the Institute of Chartered Accountants of Pakistan and notified by the SECP.

  The Regulations supersede the draft previously published via S.R.O. 1383(I)/2012 dated November 19th, 2012 and came into force on February 9, 2017. (However, annual accounts for the period ended December 31, 2016 and quarterly accounts for the period ending March 31, 2017 shall be prepared in accordance with the previous requirements).

- The Insurance Rules, 2017 (the Rules) were also issued by the SECP in February 2017, with the approval of the Policy Board of SECP. The Rules not only compile and consolidate the existing sets of insurance rules, but also aim to bring substantial reforms in the insurance sector by the introduction of new accounting formats for the purposes of financial statements and strengthening of the regulatory regime for insurance brokers and insurance surveyors. Like in the past, the Rules also include fitness and propriety requirements for the Chief Executive and Directors of Insurance Brokers (considering aspects such as integrity and track record, financial soundness, competence and capability, conflicts of interest, etc) and also indicate the requirements for training and continuous development of directors and chief executive officers.

  The Rules supersede the previously published draft Rules (which were published via S.R.O. 1057(I)/2015 dated October 30th, 2015) and have come into force on February 9, 2017.

Apart from the regulatory initiatives mentioned above, the SECP conducted pre-audit meetings with external auditors of listed insurance companies in order to communicate concerns regarding statutory audits for the year ending December 31, 2016 to help in improving the quality of audits and ensuring that supervisory efforts and policies are effective, appropriate and based on accurate data.

SECP also launched a guide book on “Insurance” under their Investor Education Initiative –“Jamapunji”, explaining the basics of insurance and factors to consider when purchasing insurance.

Further, Pakistan will have the honor of chairing the Mutual Exchange Forum on Inclusive Insurance Network (MEFIN) for the year 2017. MEFIN is a peer network of insurance policymakers and regulators in Asia that has been established as a platform for an effective and resourceful exchange of applicable knowledge and best practices on inclusive insurance. Regulators from Indonesia, Philippines, Vietnam, Nepal, Mongolia and Pakistan have vouched to support inclusive insurance as a strategy for poverty reduction in the region.

3. Clearing Houses (Licensing and Operations) Regulations, 2016

SECP has issued certain amendments to the Clearing Houses (Licensing and Operations) Regulations, 2016, a draft of which was issued through SRO 83(I)/2017 in February 2017.
According to the notification:

- For appointment of Chief Executive Officer (CEO), the SECP has proposed that a clearing house shall shortlist names of three suitable persons meeting the fit and proper criteria as provided in the regulations, but shall forward **only one** name with its recommendation for approval to the Commission. However, if the Commission is not satisfied with the suitability of the proposed person for appointment as CEO, it may refer the matter back to the clearing house for proposing another name for consideration of the Commission.

- Likewise, a similar procedure is required to be followed for the appointment of Chief Regulatory Officer (CRO), with the clearing house recommending just one of the three shortlisted names for approval of the Commission, with the possibility of the matter being referred back to the clearing house for proposal of another name.
  Further, along with obtaining prior written approval of the commission for appointment of CRO, clearing houses must now also obtain such approvals for termination of services of the CRO as well.

- Amendment was made in part (b), clause (ix) of Annex I allowing the possible extension of the age limit of Senior Management Officers from 60 years to 62 years in exceptional circumstances, with reasons recorded in writing. Previously the allowable extension was "open-ended" on a case to case basis with no maximum limit set.

4. Companies (Appointment of Legal Advisers) (Amendment) Act, 2017

The Companies (Appointment of Legal Advisers) (Amendment) Act, 2017, has been promulgated, thereby amending the previous Act that was promulgated in 1974.

The amendments are aimed at relieving small-sized companies from the financial burden of appointing legal advisors (to advise such companies in the performance of their functions and the discharge of its duties in accordance with the law). Accordingly, the threshold for companies required to appoint legal advisors has been substantially increased from companies having paid-up capital of Rs 0.5m and above - to those having more than Rs 7.5m paid-up capital. As a result, approximately 30,000 companies have been relieved from the previous regulatory burden through this initiative.

Previously the penalty for contravention of the Companies (Appointment of Legal Advisors) Act, 1974, was imprisonment. Now, the SECP has been empowered to impose penalty for contravention of the provisions of the law, instead of the courts. As a result, the Commission shall now be able to take timely cognizance of the violation of any provisions of the Act, rules or regulations made and impose penalty. An appeal process has also been provided.

(Note: "Company" with respect to the above does not include a company limited by guarantee or an association registered under section 42 of said Ordinance)

5. **User Registration System under eServices**.

SECP has inaugurated a new user registration system under eServices. eServices allows companies to electronically submit various statutory forms and information required to be filed under the Companies Ordinance, 1984 , under any Rules and Regulations being administered by SECP. This may also include processes such as name reservation, incorporation of a new company, winding up of a company etc.

The new simplified User Registration System under eServices has replaced the process of obtaining digital signatures from NIFT[4] and registration of a user can now be achieved simply by obtaining a User ID and Password[5]. Once the company has the User ID and Password, it can select the process, enter the relevant data, generate the statutory form for the process, sign the form electronically, and submit it online to SECP.
User registration under eServices is required for incorporation of new companies through the online process and reduces not only the incorporation cost but also the turnaround time from days to minutes for registration of users of eServices. It is a one-time registration without any renewal and associated cost as is presently required on an annual basis. This facility is a great incentive for potential promoters of companies, and is likely to further propel corporate growth.

SECP has been introducing various mechanisms to ensure ease of doing business through a number of initiatives and the new user registration system a paradigm shift from the traditional registration system to a new modern incorporation regime aimed at improving transparency, governance of capital market infrastructure institutions and investor protection.

6. SECP sets up anti-money laundering cell

The SECP has established an Anti-Money Laundering (AML) Cell to address the possibility of money laundering within capital markets, insurance, NBFCs and the not-for-profit corporate sector. The SECP has established thresholds for various sectors for reporting of investments made in the securities markets, the NBFCs and the insurance sector.

The efforts are expected to curb the potential of any ill gotten money finding its way into the capital markets and will help Pakistan attain a compliant assessment from international money laundering assessors during the upcoming AML/Combating the Financing of Terrorism mutual evaluation assessment due in 2018.The AML Cell will develop a database of reports for its analysis on a consolidated basis and initiate further probe wherever needed.

SECP has been making efforts to actively monitor equity trading in the stock market in order to curb market abuses and unfair trading practices such as front-running/insider trading, which negatively affect this basic essence of the markets. SECP is working to promote public confidence in the market and establishing a robust compliance regime.

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[4] NIFT - National Institutional Facilitation Technologies (Pvt.). Ltd provides intercity clearing facilities through a grid of automated clearing (including cheque clearing, reconciliation, interbank settlement etc).

[5] In order to obtain User ID, each Pakistani national should have valid Computerized National Identity Card (CNIC), Mobile number and valid email address while Foreign National should have valid passport, photograph, mobile number and Email address

International

1. Significant Endorsement of Integrated Reporting <IR> by International Federation of Accountants

The International Federation of Accountants (IFAC) has released the updated version of its Policy Position Paper 8, 'Enhanced Organizational Reporting: Integrated Reporting Key', which states that "Integrated Reporting is the way to achieve a more coherent corporate reporting system, fulfilling the need for a single report that provides a fuller picture of an organization's ability to create value over time."

The paper also states that IFAC "believes that the integrated report can be used as an 'umbrella' report for an organization's broad suite of reports and communications, enabling greater interconnectedness between different reports and recognizing that there is a range of different frameworks and regulations available and under development".

This is a significant shift from the original paper which acknowledged the existence of a range of different organizational reporting frameworks and that it was important to examine the relationship between these frameworks. In its update, IFAC points at the risk of having numerous frameworks saying it will potentially present significant problems in coming years especially for businesses operating across borders. However, IFAC's updated paper also states that it was not possible at this stage to recommend whether corporate reporting beyond financials should be mandated or market driven.

2. OECD Corporate Governance Factbook

The Organisation for Economic Co-operation and Development (OECD) recently released the third edition of its Corporate Governance Factbook which was first published in 2014 and is updated at regular intervals. The Factbook is a compilation of information gathered from OECD and non-OECD country delegates and presented to the OECD Corporate Governance Committee as part of a series of thematic reviews issued by the OECD. These reviews cover major corporate governance challenges: board practices (including remuneration); institutional investors; related party transactions; board member nomination and election; supervision and enforcement; and risk management.

The 2017 edition of the Factbook describes corporate governance practices in 47 countries, providing an informative insight into each countries' institutional, legal and regulatory frameworks. It complements the G20/OECD Principles of Corporate Governance issued in September 2015 by tracking how countries are actually implementing the Principles, which offer a comprehensive set of recommendations to policy makers to support sound corporate governance frameworks.

The Factbook is divided into four main areas that are crucial for understanding how corporate governance functions in different jurisdictions:

- the corporate landscape
- the corporate governance framework
- the rights of shareholders and key ownership functions
- the corporate board of directors

Governments may use the Factbook to compare their own frameworks with that of other countries or to obtain information about practices in specific jurisdictions

3. OECD Survey of Corporate Governance Frameworks in Asia

The OECD has just published its 'Survey of Corporate Governance Frameworks in Asia'. The survey is based on information provided by various organisations including securities regulators, institutes of directors, stock exchanges and governance centers and presents information for 14 jurisdictions, namely: Bangladesh, China, Chinese Taipei, Hong Kong, India, Indonesia, Korea, Malaysia, Mongolia, Pakistan, Philippines, Singapore, Thailand and Vietnam. The SECP participated in providing information for Pakistan in this regard.

Partner organisations in Asia requested the OECD to develop a comprehensive source of corporate governance laws and regulations comparable to the information available in the OECD Corporate Governance Factbook (mentioned above). Covering 14 different economies in Asia, the survey provides a unique snapshot by reporting on various aspects of corporate governance from ownership structures and shareholders rights to regulatory issues and board matters. The report states that in most of these jurisdictions, there is concentration of ownership (at varying levels) and hence corporate governance issues in this region may be different from that faced in an Anglo-American context.

Although the survey is a macro-level one containing an examination of key parameters in corporate governance, it is nevertheless a useful resource for capital market regulators, stock exchanges, listed companies and investors as they continue their efforts to reform corporate governance frameworks in their respective jurisdictions.

In order to gain a more in-depth insight into governance practices within the corporate sector in Pakistan, PICG recently conducted a survey on 'Board Composition, Practices and Remuneration'[6] of companies in Pakistan. The resulting 'Detailed Analysis Report' is based on direct responses received from a number of organizations, both listed and unlisted, across Pakistan and provides an informative and comprehensive analysis of various corporate governance practices across the country whilst highlighting both strengths and possible areas of improvement in the overall governance framework of the country.

> Good corporate governance is not an end in itself. Instead, it is a means to create an environment of market confidence and business integrity that supports capital market development and corporate access to equity capital for long-term productive investments. The quality of a country's corporate governance framework is therefore of decisive importance for the dynamics and the competitiveness of its business sector.
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> - *OECD Corporate Governance Factbook-2017*

[6] Refer Business Recorder article: http://epaper.brecorder.com/2017/04/06/12-page/865119-news.html