



THE STATE-OWNED ENTERPRISES (GOVERNANCE AND OPERATIONS) ACT, 2023



CONTENTS

CHAPTER-1

GENERAL

1. Short title and commencement
2. Definitions
3. Scope and application

CHAPTER-2

STATE-OWNED ENTERPRISE MANAGEMENT POLICY AND PRINCIPLES

4. State-owned enterprise ownership and management policy
5. General principles

CHAPTER-3

PRUDENT AND EFFICIENT MANAGEMENT

6. Sound and prudent management
7. Objectives of state-owned enterprises

CHAPTER-4

MEASURABLE PERFORMANCE

8. Business plan

CHAPTER-5

RESPONSIBLE MANAGEMENT

9. Application of this Chapter
10. Board Nominations Committee
11. Disqualification of independent directors
12. Composition of the Board of a company
13. Term of office of directors

14. Defect or irregularity in appointment
15. Chairman of the board and the chief executive officer
16. Fit and proper criteria

CHAPTER-6

RESPONSIBILITIES, POWERS AND FUNCTIONS OF THE BOARD

17. Independence of the Board
18. Appointment of the chief executive officer
19. Responsibility to the shareholders and the state-owned enterprise
20. Enforcement of systems of internal control
21. Audit Committee
22. Board meetings
23. Indemnity

CHAPTER-7

TRANSPARENT PERFORMANCE

24. Financial transparency
25. Financial statements
26. Annual report
27. Publication of summary of annual report
28. Half-yearly report

CHAPTER-8

SHAREHOLDING RIGHTS OF THE FEDERAL GOVERNMENT

29. Role of Federal Government
30. Disclosure by state-owned enterprise

CHAPTER-9

MONITORING PERFORMANCE

31. Central monitoring unit
32. Disclosures to the central monitoring unit

CHAPTER-10

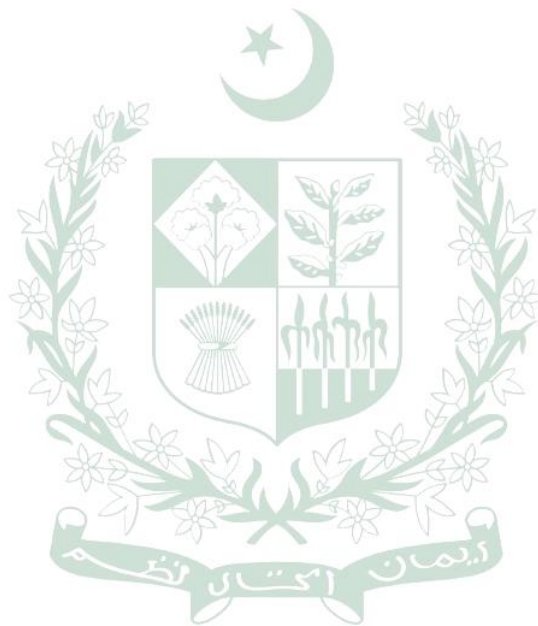
ENFORCEMENT

33. Enforcement of this Act
34. Power to make rules
35. Power to issue directives, circulars, guidelines, etc.

CHAPTER-11
MISCELLANEOUS

- 36. Miscellaneous
- 37. Removal of difficulty

SCHEDULE-I
SCHEDULE-II
SCHEDULE-III
SCHEDULE-IV
SCHEDULE-V
SCHEDULE-VI



THE PAKISTAN CODE

THE STATE-OWNED ENTERPRISES (GOVERNANCE AND OPERATIONS) ACT, 2023

ACT NO. VII OF 2023

[30th January, 2023]

AN
ACT

to provide for governance and operation of the management and financial efficiency of state-owned enterprises owned and controlled by the Federal Government

WHEREAS, the Federal Government owns and controls a number of state-owned enterprises established under the various laws of Pakistan;

AND WHEREAS, the governance and operation of these enterprises if not made effectively or appropriately affects the quality of service delivery by the State as well as the fiscal discipline of the State;

AND WHEREAS, it is expedient to specify principles governing the operation of state-owned enterprises to authorise the formation of state-owned enterprises for carrying on certain Federal Government activities and to control the ownership thereof and to establish requirements about the governance and accountability of state-owned enterprises and for matters connected therewith and ancillary thereto;

It is hereby enacted as follows:

CHAPTER-I GENERAL

1. Short title and commencement.—(1) This Act shall be called the State-Owned Enterprises (Governance and Operations) Act, 2023.

(2) It shall come into force at once.

2. Definitions.—In this Act, unless there is anything repugnant in the subject or context,—

(a) “articles” means the articles of association of a company;

(b) “board” means—

- (i) in the case of a company, the board of directors of the company; and
- (ii) in the case of a statutory state-owned enterprise, the governing body empowered to oversee or manage the affairs of such statutory body or enterprise.

(c) “chief executive officer” means—

- (i) in the case of a company, the chief executive officer of the company, by whatever name called; and

- (ii) in the case of a statutory state-owned enterprise, the person empowered to undertake the functions of the chief executive officer, by whatever name called under the relevant law.
- (d) “controlled by the Government” means—
- (i) in the case of a company, if the Federal Government directly or indirectly has the right to appoint a majority of directors or control over management or policy decisions, exercisable by a person individually or through any person acting in concert, directly or indirectly, whether by virtue of Federal Government shareholding, management right, shareholders agreement, voting agreement or otherwise;
- (ii) in the case of an entity created by an Act of the Majlis-e-Shoora, if the Federal Government has the power to appoint a majority of the persons who are directors of that entity or otherwise has the power to determine the outcome of decisions about the entity’s management or financial and operating policies.
- (e) “commercial state-owned enterprise” means—
- (i) a state-owned enterprise established under the Companies Act, 2017 (XIX of 2017) other than companies licensed under section 42 thereof; or
- (ii) a state-owned enterprise that generates the majority of its revenue from the sale of goods or services or a combination of goods and services on a commercial basis.
- (f) “company” means a company incorporated under the Companies Act, 2017 (XIX of 2017) which is a state-owned enterprise;
- (g) “director” means—
- (i) in the case of a company, a director appointed under the Companies Act, 2017 (XIX of 2017); and
- (ii) in the case of a statutory state-owned enterprise, a member of the governing body designated under the applicable law.
- (h) “nominee director” means—
- (i) a director who represents the Federal or Provincial Government; and
- (ii) a director who represents another state-owned enterprise.
- (i) “independent director” means a director who is not an *ex-office* director and is not disqualified under section 11;
- (j) “owned by the Federal Government” means—

- (i) in the case of a company, an entity in which the Federal Government directly or indirectly holds fifty percent or more shareholding; and
- (ii) in the case of a statutory state owned enterprise, an entity which has been established through an Act of the Majlis-e-Shoora.
- (k) “prescribed” means prescribed by rules made under this Act;
- (l) “public service obligation” means the specified service or activity referred to in a public service obligation agreement;
- (m) “public service obligation agreement” means an agreement referred to in Schedule-II between the Federal Government and a commercial state-owned enterprise for the undertaking of a public service obligation by the commercial state-owned enterprise;
- (n) “Schedule” means Schedule made under this Act;
- (o) “state-owned enterprise” means a corporate body falling within the scope of section 2; and
- (p) “statutory state-owned enterprise” means a state-owned enterprise established under an Act of Parliament.

3. Scope and application.—(1) Notwithstanding anything contained in any other law for the time being in force, this Act shall have application to all public sector companies as defined in sub-section (54) of section 2 of the Companies Act, 2017 (XIX of 2017) and other corporate bodies which are owned and controlled by the Federal Government including those established under special enactments but shall not apply to—

- (a) regulatory bodies which are empowered to issue licences, grant tariffs or undertake investigations and inquiries with regard to non-compliance of their statutory functions and powers;
- (b) subject to sub-section (2), enterprises providing health and educational services and facilities; and
- (c) subject to the criteria laid down in the state-owned enterprise ownership and management policy, any state-owned enterprise specifically excluded from the complete or partial application of this Act by the Federal Government for reasons to be recorded and by notification in the official Gazette, provided that such exclusion does not undermine the objectives and principles of this Act.

(2) The application of this Act may be extended by the Federal Government either completely or partly to any entity specified in Schedule-I, including without limitation to entities which the Federal Government does not have ownership in but exercises control thereon:

Provided that the Federal Government shall have the power to amend Schedule-I;

CHAPTER-2
**STATE-OWNED ENTERPRISE MANAGEMENT POLICY
AND PRINCIPLES**

4. State-owned enterprise ownership and management policy.—(1) The Federal Government shall, at least once in every five years, prepare and prescribe a state-owned enterprise ownership and management policy for giving effect to the objectives of this Act, namely:—

- (a) that the shareholding responsibilities of the Federal Government with respect to its state owned enterprises are clarified;
- (b) that the Federal Government acts as an informed and active shareholder; and
- (c) that fiscal risks associated with state owned enterprises are effectively managed:

Provided that the first policy to be developed under this Act shall be notified no later than one year from the coming into effect of this Act:

Provided further that in the development of policies under this section, the Federal Government may seek input and assistance from the relevant stakeholders, including any regulatory body, as may be required.

(2) The policy referred to in sub-section (1), shall provide for, *inter-alia*—

- (a) the criteria and rationale for ownership, retention and establishment of a state-owned enterprise by the Federal Government;
- (b) the role of the Federal Government in the governance of state-owned enterprises;
- (c) the manner and procedure for exercising the rights of the Federal Government as shareholder in state-owned enterprises, including, without limitation, matters enumerated in sub-section 2 of section 29, subject to the principles laid down in this Act;
- (d) clarification of the respective roles and responsibilities of any Division of the Federal Government, under the Rules of Business, 1973, Boards and other stakeholders involved in the implementation of the Ownership Policy;
- (e) the role of and manner of operation of the central monitoring unit;
- (f) the form and procedure for management and use of the electronic state-owned enterprise database, including right of access by the public;
- (g) a framework for ensuring competitive neutrality of the State with respect to state owned enterprises;

- (h) a public sector obligation management framework;
- (i) process of monitoring and managing contingent liabilities of state-owned enterprises;
- (j) guidelines for board nominations committee while exercising its functions under section 10, including with respect to diversity and adequacy of board composition;
- (k) ¹[* * * * *]
- (l) the cooling off period for the appointment of independent directors;
- (m) the manner of regulation of conflict of interest of directors, including procedures for identification and reporting of direct and indirect interests of directors and resolving any conflict of interest thereon;
- (n) the criteria for excluding a state owned enterprise from the ambit of clause (c) of sub-section (1) of section 3; and
- (o) any other matter required to give effect to the provisions and objectives of this Act.

(3) The policy prescribed under this section shall clarify the manner of giving effect to the institutional arrangements whereby roles and responsibilities have been assigned under this Act, in particular and without limitation—

- (a) the manner in which the Board shall undertake its responsibilities with regard to—
 - (i) development of a business plan and statement of corporate intent under section 8, including without limitation the development of performance indicators and specific targets and the disclosure of public service obligations and target areas;
 - (ii) appointment of chief executive officer under section 18;
 - (iii) ensuring the development of internal systems of control under section 20;
 - (iv) establishment of an audit committee under section 21;
 - (v) timely preparation and publication of the financial statement, annual report and half-yearly report under sections 24 to 28;
 - (vi) timely submission of information to the central monitoring unit under section 32; and
 - (vii) ensuring the integrity of the information submitted to the central monitoring unit.

¹Omitted by Act No. XII of 2024, s. 2

- (b) the manner in which the central monitoring unit shall undertake its functions with regard to—
 - (i) maintaining an electronic database under section 31;
 - (ii) providing analysis under sub-section (2) of section 31 to the Federal Government or its standing committee as the case may be;
 - (iii) issuing periodic reports to the Federal Government or its standing committee as the case may be, and making such reports public, under sub-section (3) of section 31.
- (c) the manner in which the Federal Government shall undertake its functions with regard to—
 - (i) prescription of the state-owned enterprise ownership and management policy under this section as well as other rules to be prescribed under section 34;
 - (ii) roles and procedure of the standing committee to be established under sub-section (1) of section 33;
 - (iii) the role of the Division to which the business of a state-owned enterprise has been allocated under the Rules of Business, 1973 with respect to—
 - (A) co-ordinating compliance with this Act by the Board;
 - (B) providing sectoral policy support and guidance to the state-owned enterprise to enable it to comply with its objectives under section 7; and
 - (C) providing sectoral policy support to the Federal Cabinet or its standing committee as the case may be with respect to the objectives of this Act.
 - (iv) the role of the Federal Government or its standing committee as the case may be, regarding the exercise of shareholding rights, use of analysis and reports submitted by the central monitoring unit and the general oversight of the Boards under this Act.

5. General principles.—The provisions of this Act, the state-owned enterprise management policy, and any rules made hereunder shall aim to further the following general principles, namely:

- (a) the principle of prudent and efficient management according to which—
 - (i) a commercial state-owned enterprise must operate on a commercial basis that is efficient and profitable; and
 - (ii) a state-owned enterprise must operate efficiently and effectively.
- (b) the principle of measurable performance according to which a state-owned enterprise must identify its business goals;

- (c) the principle of responsible management according to which the management of a state-owned enterprise must be competent, honest and accountable;
- (d) the principle of transparent performance according to which a state-owned enterprise must report its performance fully, transparently and timeously;
- (e) the principle of monitored performance according to which a state-owned enterprise must be subject to rigorous monitoring and review;
- (f) the principle of competitive neutrality; and
- (g) the principle of protection of minority shareholders, according to which the government and the state-owned enterprise must recognise the rights of all shareholders and ensure all shareholders are treated equitably and have equal access to corporate information and the ability to nominate directors in a manner commensurate with their shareholding interest.

CHAPTER-3

PRUDENT AND EFFICIENT MANAGEMENT

6. Sound and prudent management.—(1) Every state-owned enterprise shall undertake its operations in accordance with the criteria for sound and prudent management, namely:—

- (a) the business of the state-owned enterprise is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities;
- (b) each independent director and chief executive officer, by whatever name called, of the state-owned enterprise complies with the prescribed fit and proper criteria;
- (c) the state-owned enterprise is directed and managed by a sufficient number of persons who are fit and proper persons to hold the positions which they hold; and
- (d) the state-owned enterprise maintains adequate accounting and other records of its business.

(2) Accounting and other records shall not be regarded as adequate for the purposes of this provision unless they—

- (a) enable the business of the state-owned enterprise to be prudently managed;
- (b) enable the state-owned enterprise to comply with the obligations imposed by this Act; and
- (c) comply with all professional standards and pronouncements of relevant professional bodies as applicable in Pakistan.

7. Objectives of state-owned enterprises.—(1) The primary objective of a state-owned enterprise shall be to operate in an efficient manner, achieving the objectives contained in, and acting

in accordance with their respective Acts or articles and memorandum of association, as the case may be.

(2) State-owned Enterprises, in undertaking their primary objectives, shall have regard, amongst other matters, to:—

- (a) the economic consequences of any decision in the long term;
- (b) the need to foster the state-owned enterprise's business relationships with suppliers, customers and other stakeholders;
- (c) the impact of the state-owned enterprise's operations on the community and the environment;
- (d) the importance of the state-owned enterprise maintaining a reputation for high standards of business conduct; and
- (e) the need to act fairly as between members of the state-owned enterprise.

(3) Notwithstanding anything contained in any other law for the time being in force, the primary objective of a commercial state-owned enterprise shall be to generate sufficient revenues to cover their costs and be financially sustainable.

(4) The Federal Government shall not require a commercial state-owned enterprise to undertake a public service obligation which deviates from the primary objective except as specified in Schedule-II of this Act;

(5) Nothing in this section shall affect the validity or enforceability of any contract or other transaction entered into by a commercial state-owned enterprise.

CHAPTER-4 MEASURABLE PERFORMANCE

8. Business plan.—(1) The Board of every state-owned enterprise shall, prior to the commencement of each financial year, adopt a business plan in respect of the following three financial years which shall contain information about the operations, strategic direction, and financial and non-financial performance measures of the state-owned enterprise and demonstrates how the state-owned enterprise shall achieve its primary objective:

Provided that the business plan must be effective on the first day of the first financial year to which it applies.

(2) If a state-owned enterprise has one or more subsidiaries, the business plan must, for each subsidiary and for the group as a whole, include information about the operations, strategic direction and financial projections of the state-owned enterprise.

(3) The business plan of a state owned enterprise shall be prepared in consultation with the Division to which the business of the state-owned enterprise has been allocated under the Rules of Business, 1973 and the draft under consultation shall be simultaneously submitted to the Central Monitoring Unit and the adopted business plan shall be submitted to the Federal Government for information.

(4) The board of every state-owned enterprise shall at the start of each financial year, adopt and cause to have published a statement of corporate intent for the state-owned enterprise or the group comprising the state-owned enterprise and its subsidiaries (if any), in respect of that year and the following two financial years in the manner and form set out in Schedule-III.

CHAPTER-5 RESPONSIBLE MANAGEMENT

9. Application of this Chapter.—This chapter shall apply to all boards of state-owned enterprises, notwithstanding anything contained in any other law for the time being in force.

10. Board Nominations Committee.—(1) There shall be a Board Nominations Committee comprising-

- (a) the Minister in Charge to which the business of the state-owned enterprise has been allocated under the Rules of Business, 1973, who shall also be the Chair of the Committee:

Provided that where the Minister in Charge is the Prime Minister, he may nominate another member of the Federal Government to be Chair of the Committee;

- (b) the Secretary of the Division to which the business of the state-owned enterprise has been allocated under the Rules of Business, 1973; and
- (c) the Secretary of the Finance Division or his nominee of at least BPS 21.

(2) The Board Nominations Committee shall be responsible for—

- (a) identifying and recommending candidates to the Federal Government for appointment as independent directors which the Federal Government is empowered to appoint to Boards; ¹[*]
- (b) recommending *ex-officio* positions to be held by the relevant Division or public sector organization of the Federal Government, or where necessary, a Provincial Government ¹[;]
- ¹[(c) evaluating the performance of *ex-officio* and independent directors; and
- (d) recommending the removal of a director or directors to the Federal Government on the basis of evaluating the performance of such director or directors.]

(3) The procedure adopted by the Board Nominations Committee for performing its functions ¹[under clauses (a) and (b) of sub-section (2)] shall be notified and shall comply with the principles of merit, confidentiality, transparency, diversity and fairness, including, but not limited to—

- (a) advertisement in a newspaper(s) of wide circulation;
- (b) requesting applications by invitation;
- (c) appointing a head-hunting agency; or

¹Omitted, subs., added and ins. by Act No. XII of 2024, s. 3.

- (d) identifying candidates from the databank of independent directors notified by the Securities and Exchange Commission of Pakistan under section 166 of the Companies Act, 2017 (XIX of 2017).

¹[(3A). In carrying out its functions under clauses (c) and (d) of sub-section (2) of section 10, the Board Nomination Committee shall evaluate the performance of a director or directors of a state-owned enterprise based on the objectives and principles laid down in Chapters 2, 3 and 4 of this Act, to the extent applicable to a Board of a state-owned enterprise.]

(4) The Board Nominations Committee shall apply the prescribed fit and proper criteria while making nominations of persons for appointment as directors.

11. Disqualification of independent directors.—The following persons shall not be appointed or continue to hold office as an independent director, namely:

- (a) a person who is under eighteen years of age;
- (b) a person who is not a natural person;
- (c) a person who is an undischarged bankrupt in any jurisdiction;
- (d) a person who has been convicted of an offence in any jurisdiction;
- (e) a person who is prohibited under a statute or by order of court from being a director or promoter of, or being concerned or taking part in the management of a corporation;
- (f) a person who is declared mentally unfit by a medical board constituted for this purpose;
- (g) a person who is in the service of Pakistan;
- (h) a member of the Majlis-e-Shoora or a Provincial Assembly;
- (i) a holder of a political office whether or not in a legislative role; or
- (j) an employee of a state-owned enterprise.

12. Composition of the Board of a company.—(1) A Board of a company shall consist of independent directors, *ex-officio* directors and the chief executive officer of the company, with the requisite skills, competence, knowledge, experience and approach so that the Board as a group includes core competencies and diversity required to assist the company achieve its primary objective.

(2) The majority of the board shall consist of independent directors.

(3) No person shall be appointed or nominated as a director of more than five state-owned enterprises simultaneously, including their subsidiaries.

¹Added by Act No. XII of 2024, s. 3.

(4) An independent member shall not serve for more than nine years on a Board, and shall not be appointed to the same Board after two consecutive terms unless a period of three years has lapsed.

13. Term of office of directors.—(1) A director, once appointed shall hold office for the period specified under the applicable law, unless he resigns in writing or is removed earlier in accordance with the provisions of this Act.

¹[Provided that for reasons to be recorded, the Federal Government may remove a director or directors on the recommendation of the Board Nominations Committee under clause (d) of sub-section (2) of section 10.]

(2) ¹[Save for as provided in the *proviso* sub-section (1) of section 13, an] independent director once appointed by the Federal Government shall not be removed unless it is established through an inquiry conducted in the prescribed manner that—

- (a) the director is found to be in non-compliance with the provisions of this Act, or the Companies Act 2017, (XIX of 2017), or any other applicable law;
- (b) ¹[* * * * *]
- (c) the director is found to act in a manner detrimental to the successful management and operation of the state-owned enterprise; or
- (d) the director is found guilty of misconduct.

Explanation.—For the purpose of this clause, misconduct includes—

- (i) indulging in a competing professional or personal conflict of interests' situation;
- (ii) using the funds, assets and resources of the state-owned enterprise without due diligence and care;
- (iii) failing to treat the colleagues and the staff of the state-owned enterprise with respect, or using harassment in any form of physical or verbal abuse;
- (iv) making public statements relating to the business of the state-owned enterprise without authorization by the Board;
- (v) failing to comply with the state-owned enterprise's code of conduct or conflict of interest requirements;
- (v) receiving gifts or other benefits from any sources external to the state-owned enterprise offered to him in connection with his duties on the Board; or
- (vi) abusing or misusing his official position to gain undue advantage or assuming financial or other obligations in private institutions or for persons which may cause embarrassment in the performance of official duties or functions.

14. Defect or irregularity in appointment.—No act, proceeding or decision of the board shall be invalid by reason only of the existence of a vacancy in, or defect or irregularity in the constitution of the board.

¹Ins., subs. and omitted by Act No. XII of 2024, s. 4.

15. Chairman of the board and the chief executive officer.—(1) No person can hold office as chairman and chief executive of a state-owned enterprise simultaneously, and the office of the chairman shall be separate and his responsibilities distinct, from those of the chief executive officer.

(2) The chairman of the board shall be appointed by the Federal Government and shall be responsible for leading the board and ensuring its effective functioning and continuous development and shall not be involved in day to day operations of the state-owned enterprise.

(3) The chief executive officer shall—

- (a) be responsible for the management of the state-owned enterprise and for its procedures in financial and other matters under delegation from the board and subject to the oversight and directions of the Board;
- (b) ensure the proper implementation of strategies and policies approved by the Board; and
- (c) putting in place appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with the state-owned enterprise business plan, the primary objective and all statutory obligations.

16. Fit and proper criteria.—(1) The fit and proper criteria shall be prescribed in Schedule-IV and shall apply to independent directors, the chief executive officer, the company secretary and all other senior management officers, by whatever name called, of a state-owned enterprise.

(2) The requirement to comply with the fit and proper criteria under this Act shall be without prejudice to compliance with any other requirement for the fitness and propriety of directors or senior management officers issued under any special law, rules or regulations by a sector regulator or authority governing a specified sector.

CHAPTER-6

RESPONSIBILITIES, POWERS AND FUNCTIONS OF THE BOARD

17. Independence of the Board.—(1) The Board shall be given autonomy and independence in the discharge of its functions under this Act or any other applicable law in accordance with the adopted business plan and no administrative or standing instructions by any Division of the Federal Government shall be applicable to any state-owned enterprises unless prior approval of the Federal Government has been obtained and any such instructions already in field at the time of coming into effect of this Act shall require Federal Government ratification within a period of six months, failing which they shall be deemed to be rescinded.

(2) State-owned enterprises shall maintain independent procurement policies with the approval of the Federal Government, which comply with the Chartered Institute of Procurement and Supply's Global Standards of Procurement and Supply and shall only be responsible for compliance of the provisions of the Public Procurement Regulatory Authority Ordinance, 2002 (XXII of 2002) to such extent as may be directed by the Federal Government:

Provided that until the procurement policy of state-owned enterprise is prepared and approved by the Federal Government, the Public Procurement Regulatory Authority Ordinance 2002, (XXII of 2002) apply *mutatis mutandis* to it.

18. Appointment of the chief executive officer.—(1) The Board, in the case of a company, or the concerned authority in the case of a statutory state-owned enterprise shall appoint a chief executive officer to the state-owned enterprise under a performance based contract for a specified period, unless such period is already specified in the enactment governing a statutory state-owned enterprise:

Provided that the Board or the concerned authority shall bring their existing arrangements with the the appointment of chief executive officers in line with this provision within one year of coming into effect of this law.

(2) The Board or the governing body in the case of statutory state-owned enterprises, by whatever name called, shall be responsible for ensuring the performance of the chief executive is monitored regularly against agreed performance measures and for the chief executive's development and succession planning.

19. Responsibility to the shareholders and the state-owned enterprise.—(1) The Board shall ensure its obligations to shareholders of the state-owned enterprise are fulfilled and they are duly informed in a timely manner of all material events through shareholder meetings and other communications as necessary.

(2) The Board shall develop and implement a code of conduct for the members of the Board, as well as the employees of the state-owned enterprise for the matters set out in Schedule-V of this Act, with a view to ensure the highest professional standards and corporate values are in place:

Provided that the code of conduct developed under this sub-section shall be effectively communicated within the state-owned enterprise together with supporting policies and procedures, including adequate systems and controls for the identification and redressal of grievances arising from unethical practices.

20. Enforcement of systems of internal control.—The Board shall ensure the integrity of the systems of internal control and any person who is found liable for a deviation or violation from the company's code of conduct or other systems of internal control shall be subject to disciplinary proceedings in accordance with the state-owned enterprise's internal policies.

21. Audit Committee.—(1) The Board of a state-owned enterprise shall establish an audit committee, whose members shall be financially literate and majority of them, including its chairman, shall be independent directors:

Provided that the Chairman of the Board and the Chief Executive Officer of the state-owned enterprise shall not be members of the audit committee.

(2) The audit committee shall be responsible for—

- (a) recommending to the Board the appointment of external auditors by the state-owned enterprise and shall consider any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the state-owned enterprise in addition to audit of its financial statements;

- (b) determination of appropriate measures to safeguard the state owned enterprise's assets;
- (c) all reports and communications with external auditors;
- (d) review of half-yearly and annual financial statements of the state owned enterprise, prior to their approval by the Board;
- (e) ensuring coordination between the internal and external auditors of the state owned enterprise; and
- (f) investigating, where necessary on a confidential basis, any deviation from or violation of the company's code of conduct or other systems of internal control.

22. Board meetings.—(1) The Board of a company shall meet—

- (a) at least once in every two months; and
- (b) at other times that the board considers necessary for the efficient management of the business and affairs of the state-owned enterprise.

(2) Notwithstanding anything contained in any other law for the time being in force, decisions of the Board shall be taken by majority, however the following decisions shall require a decision by three-fourth majority, which shall include the vote of the nominee director representing the Federal or Provincial Government, namely—

- (a) appointment and removal of chief executive officer of the state-owned enterprise;
- (b) approval of the statement of corporate intent and business plan;
- (c) proposals for sale of sizeable assets;
- (d) annual budget statement approval; and
- (e) sale of assets of the company.

(3) The Chairman of the Board shall in case of equal number of votes, have a casting vote.

23. Indemnity.—No suit, prosecution or other legal proceedings shall lie against the directors, chief executive officer, or other employee of a state-owned enterprise if the liability arose out of an act or omission of the director, chief executive or employee and the act or omission was done in good faith and with due care.

CHAPTER-7

TRANSPARENT PERFORMANCE

24. Financial transparency.—(1) The Board shall ensure that the state-owned enterprise along with its subsidiaries, must keep written financial records that—

- (a) correctly record and explain its transactions and financial position and performance;
- (b) enable financial statements to be prepared and audited in accordance with this Act;
- (c) clearly identify any transactions undertaken by the state-owned enterprise with any director or his close relatives, either directly or indirectly and comprising a pecuniary or non-pecuniary benefit through a company or other business established by such director; and
- (d) enable other reports required by this Act to be prepared.

(2) The records required by sub-section (1)—

- (a) shall be kept for at least ten years after the dates of the transactions to which they relate;
- (b) must be kept at the principal place of business or the registered office address of the state-owned enterprise; and
- (c) shall also be kept in electronic form if they are readily retrievable and convertible into hard copy form.

25. Financial statements.—(1) The board of a state-owned enterprise must ensure there is prepared, for each financial year, audited financial statements for the state-owned enterprise as well as consolidated financial statements for the group consisting of the state-owned enterprise and its subsidiaries:

Provided that for the purposes of this section, a subsidiary shall not include a joint venture.

(2) The financial statements must be prepared in accordance with International Financial Reporting Standards and the financial statements together with the notes to them must include all information that is necessary to ensure that the financial statements give a true and fair view of the

financial position of the state-owned enterprise and the group consisting of the state-owned enterprise and its subsidiaries:

Provided that where a state-owned enterprise is not following the International Financial Reporting Standards at the time of coming into effect of this Act, the Board shall ensure compliance with this provision within a period of three years from coming into effect of this Act.

(3) The financial statements must be accompanied by a declaration of the Board whether, in their opinion—

- (a) there are reasonable grounds for believing that the state-owned enterprise and its subsidiaries shall be able to pay their debts as they become due and payable; and

- (b) the financial statements and the notes to them comply with the requirements of this Act and international accounting standards.

26. Annual report.—(1) A state-owned enterprise must submit to the Federal Government a report on its operations and its subsidiaries for the financial year to which it relates, not later than four months after the end of that financial year in the form prescribed in Schedule-VI.

(2) The annual report may omit information that the board of the state-owned enterprise reasonably considers is likely to materially prejudice the commercial interests of the state-owned enterprise or a subsidiary if disclosed.

(3) The Board shall submit a report to the Federal Government on the information omitted from the annual report under sub-section (2) and the reasons for such omission and such report shall be confidential.

27. Publication of summary of annual report.—(1) A state-owned enterprise must arrange for publication of a summary of the annual report on an internet site maintained by the state-owned enterprise or, where the state-owned enterprise does not have a website, on the website of the Division to which the business of the state-owned enterprise is allocated under the Rules of Business, 1973, or in one or more newspapers generally circulating in Pakistan.

(2) The summary of the annual report must be published under sub-section (1) within one month after the report is submitted to the Federal Government and should compare the actual performance of the state-owned enterprise during the financial year to which the report relates with the targets or benchmarks set in its statement of corporate intent for that financial year.

28. Half-yearly report.—(1) A state-owned enterprise must submit to the Federal Government a half-yearly report of the operations of the state-owned enterprise for the first half of the financial year to which it relates not later than two months after the end of the first half of that financial year.

(2) The half-yearly report must contain:

- (a) the half yearly financial reports of the state-owned enterprise;
- (b) a statement on the extent the state-owned enterprise and its subsidiaries have achieved the business goals specified in its statement of corporate intent for the financial year; and
- (c) include any other matter that the Federal Government may direct the state-owned enterprise to include.

CHAPTER-8

SHAREHOLDING RIGHTS OF THE FEDERAL GOVERNMENT

29. Role of Federal Government.—(1) Subject to this Act, the Federal Government shall exercise all the powers and rights that shareholders have in relation to the state-owned enterprise under the law or the constitution of the state-owned enterprise.

(2) The manner of exercise of shareholders rights with respect to the state-owned enterprise shall be prescribed in the state-owned enterprise ownership and management policy and shall include, without limitation—

- (a) the designation of the officers authorized to act as shareholder on behalf of the Federal Government at statutory meetings; and
- (b) any other matter necessary for the efficient exercise of shareholder rights by the Federal Government.

(3) The provisions of this section shall have overriding effect over any procedure to the contrary in any other applicable law.

30. Disclosure by state-owned enterprise.—(1) The directors and senior management officers of a state-owned enterprise shall annually submit their assets and beneficially held investments and properties to the Board, and any changes thereon shall be reported to the Board within two weeks of such change, subject to such reasonable restrictions on making this information public as may be imposed by the Board in its conflict management policy.

(2) The Federal Government may direct a state-owned enterprise to disclose specified information or documents relating to the affairs of the state-owned enterprise or its subsidiary.

(3) The Federal Government must not direct the disclosure of information relating to an individual if the individual is identifiable from the information.

(4) Subject to the terms of a direction under this section, a state-owned enterprise may propose reasonable conditions to the Federal Government on making the information public disclosed under this section, including restrictions of its further disclosure.

CHAPTER-9 MONITORING PERFORMANCE

31. Central monitoring unit.—(1) The Federal Government shall establish a central monitoring unit in the Finance Division which shall also maintain an electronic database of the financial and operational performance of state-owned enterprises and the following information in relation to state-owned enterprises, namely.—

- (a) statements of corporate intent;
- (b) business plans;
- (c) half-yearly and annual reports; and
- (d) any other information prescribed in the state-owned enterprise management policy.

(2) The central monitoring unit shall undertake analysis on the financial, commercial and operational performance of state-owned enterprises, and on the basis of such analysis, submit recommendations to the Federal Government on matters related to the performance and governance of state-owned enterprises, including—

- (a) the overall performance of state-owned enterprises;

- (b) performance of state-owned enterprises against their primary objectives, business goals, and performance targets and benchmarks;
- (c) investment in, loans to, and guarantees of state-owned enterprises;
- (d) the risks associated with the state-owned enterprise sector that could affect the State's investment in state-owned enterprises;
- (e) proposals relating to major transactions by state-owned enterprises as and when required by the Federal Government;
- (f) best practice by state-owned enterprises for encouraging and enhancing efficiencies and service delivery, and for improving performance;
- (g) agreements for public service obligations as and when required by the Federal Government;
- (h) compliance under section 32 by state-owned enterprises;
- (i) state-owned enterprise reform options as and when required by the Federal Government;
- (j) analysis of the content of the statements of corporate intent, business plans, annual reports and semi-annual reports; and
- (k) any other matter which the Federal Government may require.

(3) The central monitoring unit shall issue periodic reports on the performance of the state-owned enterprises and matters listed in sub-section (2), which shall not be less than once every half year, in such form and manner as may be prescribed, and such reports shall be submitted to the Federal Government.

(4) The central monitoring unit shall publish a consolidated report on the performance of state-owned enterprises annually, with the approval of the Federal Government.

32. Disclosures to the central monitoring unit.—(1) Every state-owned enterprise shall be required to submit information to the central monitoring unit as required under this Act:

Provided that if there is any change or error in the particulars already submitted to the state-owned enterprise monitoring unit, it shall be updated or corrected as the case may be, within fifteen days of such change or knowledge of error.

(2) The central monitoring unit may, by notice in writing to a state-owned enterprise, require a disclosure by the state-owned enterprise to enable the central monitoring unit to discharge its functions under this Act.

(3) A state-owned enterprise must comply with a notice under sub-section (2) within ten working days after receiving it.

CHAPTER-10

ENFORCEMENT

33. Enforcement of this Act.—(1) The Federal Government shall establish a committee of the Federal Cabinet to monitor the implementation of this Act.

(2) The Division to which the business of a state-owned enterprise has been allocated under the Rules of Business, 1973 shall co-ordinate with the Board of such state-owned enterprise to monitor compliance with the provisions of this Act, including, without limitation, with respect to the development of the business plan, statements of corporate intent, the annual reports, timely establishment of systems of internal controls of the state-owned enterprise, appointment of the Chief Executive Officer, and reporting to the central monitoring unit.

(3) The Federal Government may carry out its functions and powers under this Act, except the power to make rules or to appoint independent directors, either directly through or by delegation to one or more of its Divisions or a body corporate which may be established by the Federal Government for this purpose by notification in the official gazette:

Provided that in case the Federal Government establishes a body corporate then the functions of the central monitoring unit shall also be undertaken by such body.

34. Power to make rules.—(1) The Federal Government may, by notification in the official Gazette make rules to carry out the purposes under this Act.

(2) Without prejudice to the generality of the foregoing powers, such rules may provide for—

- (a) procedure for submission of various reports to the Federal Government and the manner of preparation of such reports;
- (b) legal validity, form, procedure and security of the electronic database maintained by the central monitoring unit; and
- (c) any other matter incidental or consequential.

(3) The power to make rules under this Act shall be subject to the condition of prior publication in a manner appropriate for inviting representations thereon by the public, and the Federal Government shall cause a report to be published on its website, setting out in general terms-

- (a) the representations made on the draft rules;
- (b) the response of the Federal Government to the representations; and
- (c) where the rules are made with modifications which in the opinion of the Federal Government result in the rules or regulations being significantly different from the draft, publish, in such manner as it considers appropriate, details of the difference.

35. Power to issue directives, circulars, guidelines, etc.—The Federal Government shall have the power to issue such directives, codes, guidelines, circulars or notifications as are necessary to carry out the purposes under this Act and the rules made hereunder.

CHAPTER-11

MISCELLANEOUS

36. Miscellaneous.—(1) Notwithstanding anything contained in any law for the time being in force, nothing in this Act, shall affect or be deemed to affect anything done or any action taken, or purported to have been taken by a state-owned enterprise, including under any rule, regulation, notification, order or notice made or issued, any approval, appointment or declaration made, any operation undertaken or direction given before the commencement of this Act.

(2) Subject to sub-section (1), any order, rule, notification, regulation, appointment, conveyance, deed, document or direction made, proceedings taken, instrument executed or issued or thing done by or in relation to a state-owned entity shall, if in force before the commencement of this Act, continue to be in force and shall have effect as if made, directed, passed, given, taken, executed, issued or done under or in pursuance of this Act, unless otherwise specifically withdrawn by an order of the concerned authority.

(3) Any person appointed to any office prior to the coming into force of this Act shall be deemed to have been appointed to that office under and by virtue of this Act and any condition or term of service or employment modified through this Act shall not have retrospective application or effect.

(4) Within one year of the coming into effect of this Act, the Federal Government shall, in the case of any inconsistency, initiate legislation to bring the laws of statutory state-owned enterprises in conformity with the provisions of this Act.

37. Removal of difficulty.—If any difficulty arises in giving effect to the provisions of this Act, Federal Government may make such order, not inconsistent with the provisions of this Act, as it may consider necessary for removal of such difficulty.

Schedule-I **Entities to Whom this Law is Extended** [see Section 3(2)]

Entity	Applicable Provisions
Pakistan Railways	
Pakistan Post Office	
Companies established under section 42 of the Companies Act, 2017	
Pakistan Agricultural Storage and Services Corporation	
Pakistan State Oil	

Schedule-II **Framework for Enforcing Public Service Obligations** [see Section 7(4)]

1. The Federal Government may in writing require a commercial state-owned enterprise to:
 - (a) provide a specified service or perform specified activities; or

- (b) cease providing a specified service or performing specified activities.
2. Within one month of receiving the written proposal from the Federal Government, the State-owned enterprise must respond to the notice in writing, stating, with reasons, whether the State-owned enterprise:
- (a) agrees to give effect to the proposal; or
- (b) finds the request to be inconsistent with the primary objective of the State-owned enterprise.
3. If the commercial state-owned enterprise gives a notice under clause (2)(b), the Federal Government and the commercial state-owned enterprise must enter into good faith negotiations with a view to agreeing arrangements under which the commercial state-owned enterprise can give effect to the Federal Government proposal without acting inconsistently with its primary objective.
4. If an agreement is reached under clause (3), the arrangements for giving effect to Federal Government proposal shall be incorporated in a Public Service Obligation Agreement which:
- (a) must be in writing;
- (b) must be approved by the Federal Government and the Board of the commercial state-owned enterprise;
- (c) may include provision for funding or other resources to the commercial state-owned enterprise;
- (d) if it provides for the commercial state-owned enterprise to provide goods or services, must-
- (i) specify the goods or services, including any particular quantities;
- (ii) specify an estimate of the annual total cost to the commercial state-owned enterprise for providing the goods or service, and an estimate of the annual total revenue to be received by the commercial state-owned enterprise for doing so; and
- (iii) specify how the performance of the commercial state-owned enterprise in providing the goods or services will be monitored and assessed.
- (e) may include any other matter, not inconsistent with this Act, that is agreed between the Minister in Charge and the commercial state-owned enterprise.
5. For the avoidance of doubt, if the Federal Government directs a commercial state-owned enterprise to provide specified services or perform specified activities through cross-subsidizing the cost between different groups of users and the revenue collected by the commercial state-owned enterprise from the cross-subsidization does not cover the costs, the Federal Government and commercial state-owned enterprise will agree the short-fall to be funded by the Federal Government and enter into a public service obligation agreement as provided in clause (4). However, a cross subsidy between different groups of users which is in accordance with a tariff determined by a regulator or the commercial state-owned enterprise's own pricing mechanism, is not a public

service obligations and will not require a public service obligation agreement as provided in clause (4).

6. The obligations under a public service obligation agreement shall be binding.

Schedule-III
Statement of Corporate Intent
(see Section 8(4))

1. Name of State-Owned Enterprise: [full name as per certificate of incorporation or relevant statute]
2. Incorporated/established on: [date of incorporation/establishment]
3. Subsidiaries included in this statement of corporate intent: _____
4. Description of the main business of the state-owned enterprise: [as per the constitutive documents/relevant statute]
5. Summary of the business goals of the state-owned enterprise: [as per the approved business-plan]
6. Summary of the performance measures and benchmarks against the state-owned enterprises business goals and its primary objective: [targets of the state-owned enterprise]
7. Summary of the strategies of the state-owned enterprise for achieving its business goals and primary objective: [commercially sensitive strategies are not required to be included here, summary of key risks identified in the achievement of the business goals to also be included here]
8. The current or anticipated borrowing of the state-owned enterprise, including borrowing by a subsidiary: [current borrowing has to be specific-anticipated borrowing to be included on the basis of projected revenue requirements of the state-owned enterprise and will not be binding on the state-owned enterprise]
9. The accounting policies that the state-owned enterprise will apply for financial records and reporting: _____
10. Summary indicative balance sheet and profit and loss statement for the state-owned enterprise: _____
11. Consolidated summary indicative balance sheet and profit and loss statement for the state-owned enterprise and its subsidiaries as a group: [need not be filled if the state-owned enterprise does not have any subsidiary]
12. The proposed dividend declaration and distribution policy of the state-owned enterprise: _____

13. Description of any public service obligations and their impact on the forecasted financial outcomes of the state-owned enterprise: [as agreed with the Federal Government]
14. Any other matter directed to be included in this statement by the Federal Government: _____

Schedule-IV
Fit and Proper Criteria
(see Section 16)

For the purpose of determining as to whether a person proposed to be appointed as director is a 'fit and proper person', the appointing authorities shall take into account any consideration as it deems fit, including but not limited to the following criteria, namely that the candidate for appointment:—

- (a) has the skills, knowledge and experience to assist the state-owned enterprise achieve its primary and other objectives;
- (b) has at least a graduate degree
- (c) is a businessman of repute or a recognised professional with relevant sectoral experience;
- (d) is financially literate;
- (e) has no convictions or civil liabilities;
- (f) has good reputation and character and exhibits high ethical standards;
- (g) is not disqualified to act as a director stipulated in this Act or any other law applicable to the functioning of a state-owned enterprise;
- (i) has not been subject to an adverse order passed by the Securities and Exchange Commission of Pakistan or any other sector regulator;
- (j) has not been subject to an order passed by the Securities and Exchange Commission of Pakistan or any other regulatory authority, withdrawing or refusing to grant any license or approval to him which has a bearing on the capital market; and
- (k) does not suffer from a conflict of interest; this includes political office holders whether or not in a legislative role.

Schedule-V
Matters to be Covered under the Code of Conduct
[see Section 19 (2)]

1. The standards of conduct for directors and employees, whereby:
- (i) compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty are ensured;

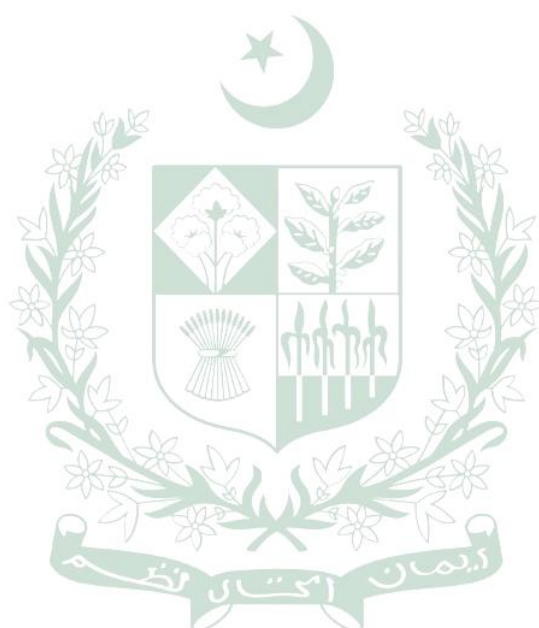
- (ii) the directors and executives uphold the reputation of the state owned enterprise by treating the general public, institutional investors and other stakeholders with courtesy, integrity and efficiency, and ensuring service quality;
 - (iii) the state owned enterprise's assets and resources are applied for the benefit of the state-owned enterprise in a manner which ensures efficiency and transparency; and
 - (iv) quality standards are followed with due diligence and that suppliers comply with the standards specified and are paid for supplies or services within the time agreed.
2. An effective “anti-corruption” strategy to minimize actual or perceived corruption in the state owned enterprise, including without limitation, with respect to:
- (i) the active promotion of ethical behaviour and facilitating reporting of unlawful or unethical behaviour;
 - (ii) the circumstances in which directors and employees may accept gifts and other benefits, including reporting and recording those gifts and benefits;
 - (iii) the use by directors and employees of the resources of the state-owned enterprise, including phones, vehicles, and other property;
 - (iv) regulation of business travel, including its cross-over with personal travel;
 - (v) reducing or eliminating improper influence on directors and employees in their position as a director or employee of the state-owned enterprise;
 - (vi) equality of opportunity is ensured by establishing open and fair procedures for making appointments and for determining terms and conditions of service.
 - (vii) compliance with the law and the state-owned enterprise's internal rules and procedures relating to public procurement, tender regulations, purchasing and technical standards, when dealing with suppliers of goods and services; and
 - (viii) trading in and holding shares, securities, or other financial instruments by directors and employees.
3. Regulation of conflicts of interest, including procedures for identification, reporting, and resolving a conflict of interest;
- Explanation:*—For the purposes of this clause a person shall be deemed to have an interest in a matter if he has any stake, pecuniary or otherwise, in such matter which could reasonably be regarded as giving rise to a conflict between his duty to objectively perform his functions and his ability to consider and decide any matter impartially or to give any advice without bias, may reasonably be regarded as impaired;
4. The use and disclosure of information by directors and employees;

5. Managing breaches of the code, including monitoring compliance and reporting breaches; and
6. Any other matter relevant to ensuring a high standard of governance within the state-owned enterprise.

Schedule-VI
Details to be Submitted in the Annual Report
(see Section 25)

1. Name of State-Owned Enterprise: [full name as per certificate of incorporation or relevant statute]
2. Incorporated/established on: [date of incorporation/establishment]
3. Subsidiaries included in this statement of corporate intent: _____
4. The audited financial statements required by this Act for the financial year to which it relates:
5. The report of the auditor for those financial statements, including compliance with this Act:
6. A review of operations during the financial year of the state-owned enterprise and its subsidiaries and the result of those operations:
7. A report of the extent to which the state-owned enterprise and its subsidiaries have achieved the outcomes specified in the statement of corporate intent for the financial year:
8. A statement of the dividend or distribution paid or to be paid by the state-owned enterprise to the State for the financial year:
9. Details of any public service obligation agreement applicable during the financial year, including:
 - i. the cost of the public service or services performed under the agreement; and
 - ii. the revenue received by or payable to the state-owned enterprise under the agreement.
10. Details of any significant changes in the affairs of the state-owned enterprise during the financial year:
11. Details of any matter or circumstance arising since the end of the financial year that has significantly affected, or may significantly affect, the operations of the state-owned enterprise in future financial years:

12. Details of any breach of the code of conduct of the state-owned enterprise during the financial year:
 13. Details of any information which is omitted from the annual report along with reasons for such omission.
 14. Any other matter that the Federal Government directs the state-owned enterprise to include in the report.
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THE PAKISTAN CODE