

CODE OF CORPORATE GOVERNANCE - 2012

The Securities and Exchange Commission of Pakistan (SECP) has replaced the Code of Corporate Governance (the Code) effective immediately which has been adopted by the Stock Exchanges in Pakistan and included in the respective Listing Regulations. The Code is to be adopted by all the Listed Companies for compliance.

SALIENT FEATURES

1. There should be at least one independent Director. However, it will be preferred that one-third of the total members of the Board to be independent Directors.
2. Criteria for assessment of independence for independent Directors have been substantially expanded.
3. Maximum number of Executive Directors on the Board has been decreased from 75% to one-third of elected Directors including CEO.
4. Number of directorships in other listed companies that a Director can hold at the same time has been decreased from 10 to 7.
5. Requirement of Board's own performance evaluation has been introduced to take effect within two years of enforcement of the Code.
6. Office of the Chairman and CEO has been separated. The Chairman shall now be elected from amongst the non-executive Directors.
7. The Directors should attain certification mandatorily under any Director Training Program offered by any institution (local or foreign), which meets the criteria specified by the SECP.
8. The appointment, remuneration and terms and conditions of employment of the Chief Financial Officers (CFO), Company Secretary (CS) and the Head of Internal Audit (IA) shall be determined by the Board rather than CEO.
9. The removal of CS and CFO by the CEO shall be with the approval of the Board only.
10. Qualification for appointment, remuneration and terms and conditions of employment of the Head of IA have been introduced. The removal of Head of IA by the CEO shall be with the approval of the Board only upon recommendation of the Chairman of the Audit Committee.
11. A formal and transparent procedure should be followed regarding remuneration of Directors and disclosure of aggregate remuneration should be made in the annual report.
12. The Chairman of the audit committee shall mandatorily be an independent Director, who shall not be the Chairman of the Board. Audit Committee shall also comprise of only non-executive Directors.
13. The secretary of Audit Committee should either be the Company Secretary or Head of Internal Audit. The CFO should not be appointed as the secretary to the Audit Committee.
14. Human Resources and Remuneration Committees have been introduced.
15. The internal audit function may be outsourced to a professional services provider firm or may be performed by the internal audit staff of the holding company.

	EXISTING PROVISIONS	PROPOSED PROVISIONS
1	Effective representation of at least one independent non-executive Director representing institutional equity interest of financial sector companies	Representation of at least one and preferably one-third of the total members of the Board as independent Directors. The Board shall state in the annual report the names of the non-executive, executive and independent Director(s) *
2	Executive Directors i.e. working or whole time Directors, are not more than 75% of the elected Directors including the Chief Executive	Executive Directors i.e. paid executives of the company from among senior management, shall not be more than one-third of the elected Directors including the Chief Executive *
3	A Director shall not serve as a Director of 10 listed companies	A Director shall not serve on Board of more than 7 listed companies simultaneously, excluding the directorships in the listed subsidiaries of a listed holding company *
4	Casual vacancy on the Board was to be filled in within 30 days	Casual vacancy on the Board shall be filled up by the Directors at the earliest but not later than 90 days *
5	Preparation of Statement of Ethics and Business Practices and circulation thereof annually	Professional standards and corporate values should be prepared in order to promote integrity for the Board, senior management and other employees in the form of a Code of Conduct, defining therein acceptable and unacceptable behaviors. The Board shall take appropriate steps to disseminate Code of Conduct throughout the company togetherwith supporting policies and procedures and these shall be put on the company's website
6	The Board defined the respective roles and responsibilities of the Chairman and Chief Executive. These offices could be held by separate individuals or the same individual	The Board shall continue to define the roles and responsibilities of the Chairman and the Chief Executive (CEO). The Chairman and CEO shall not be the same person except where provided for under any other law. The Chairman shall be elected from among the non-executive Directors and shall be responsible for leadership of the Board and shall ensure that the Board plays an effective role in fulfilling all its responsibilities *
7	Significant issues for consideration of the Board were listed	List of significant issues for consideration of the Board has been broadened
8	It was required to arrange for orientation courses for Directors to acquaint them with their duties and responsibilities	It shall be mandatory to arrange for orientation courses for Directors to acquaint them with their duties and responsibilities under the Code and other laws. The Directors should have certification under directors' training program offered by institutions, local or foreign, that meet the criteria specified by SECP. From June 30, 2012 to June 30, 2016 every year, a minimum of one Director on the Board shall acquire the said certification each year and thereafter all directors shall obtain it. Individuals with a minimum of 14 years of education and 15 years of experience on the Board of a listed company, local and/or foreign, shall be exempted from the directors' training program.
9	The qualifications for appointment as the CFO were; (a) a member of a recognized body of professional accountants; or (b) a graduate from a recognized university or equivalent, having at least 5 years experience in handling financial or corporate affairs of a listed public company or a bank or a financial institution	The CFO should have at least 5 years experience of handling financial or corporate affairs of a listed company or a bank or a financial institution and is; (a) a member of a recognized body of professional accountants; or (b) has a postgraduate degree in finance from a recognized university or equivalent. Individuals serving as CFO of a listed company for the last 5 years at the time of coming into effect of this Code shall be exempted from the above qualification requirement
10	The qualifications for appointment as Company Secretary were; (a) a member of a recognized body of professional accountants, (b) a member of a recognized body of corporate/ chartered secretaries, (c) a lawyer or (d) a graduate from a recognized university or equivalent, having at least five years experience of handling corporate affairs of a listed public company or corporation	The new Code is silent in this respect

	EXISTING PROVISIONS	PROPOSED PROVISIONS
11	The CFO and Company Secretary shall not attend such part of a meeting of the Board, which involves consideration of an agenda item relating to the CFO, Company Secretary, CEO or Director	The CFO and Company Secretary or the nominees appointed by the Board, shall not attend such part of a meeting of the Board, which involves consideration of an agenda item relating to the CFO and Company Secretary respectively
12	Appointment, remuneration and terms and conditions of employment of CFO and CS determined by CEO and approved by the Board. The same mechanism followed for removal.	The appointment, remuneration and terms and conditions of employment of the CFO, CS and Head of Internal Audit of listed companies shall be determined by the Board. The removal will also be by the Board for CS and CFO.

* Reconstitution of the Board on expiry of the current term

New requirements

- Criteria for fixation of remuneration of Director, Executive and Non-Executive Director has been defined in order to maintain transparency.
- Criteria of appointment of Head of Internal Audit has been defined. Individuals serving as Head of Internal Audit of a listed company for the last 5 years at the time of coming into effect of this Code shall be exempted from the above qualification requirement.
- Criteria and reporting procedure for fixation of remuneration of Directors has been defined.
- The closed period has been defined which shall start from the day when any document/ statement, which forms the basis of price sensitive information, is sent to the Board and terminated after the information is made public.
- Formation of Human Resource and Remuneration (HR&R) Committee has been introduced. This should comprise of at least 3 members having majority of non-executive Directors, including preferably an independent Director. The CEO may be included as a member of the committee but not as the chairman of committee. The CEO if member of HR&R Committee shall not participate in the proceedings of the committee on matters that directly relate to his performance and compensation.
- Composition, frequency of meetings and terms of reference have been further defined in respect of Audit and HR&H Committees of the Board.
- The Audit Committee shall appoint a secretary of the committee who shall either be the Company Secretary or Head of Internal Audit. CFO shall not be appointed as the secretary to the Audit Committee. The secretary shall circulate minutes of meetings of the Audit Committee to all members, Directors, Head of internal Audit and the CFO prior to the next meeting of the Board, or the Chairman of the Audit Committee shall communicate a synopsis of the proceedings to the Board and the minutes shall be circulated immediately after the meeting of the Board.
- The Head of internal Audit shall report to the Audit Committee and to the CEO. A Director cannot be appointed, in any capacity, in the internal audit function, to ensure independence of the internal audit function.
- The internal audit function may be outsourced to a professional services firm or be performed by the internal audit staff of holding company, if any. Due care shall be exercised to ensure that suitably qualified and experienced persons, who are conversant with the company's policies and procedures, are engaged in the internal audit. In the event of outsourcing the internal audit function, company shall appoint or designate a fulltime employee other than CFO, as Head of Internal Audit, to act as coordinator between firm providing internal audit services and the Board.
- The company must not appoint its existing external auditors as internal auditors while outsourcing the function.
- It should be ensured that internal audit reports are provided for the review of external auditors. The auditors shall discuss any major findings in relation to the reports with the Audit Committee, which shall report matters of significance to the Board of Directors.
- Companies in the financial sector shall change their external auditors every 5 years. Financial sector, for this purpose, means banks, non-banking financial companies (NBFC's), modarabas and insurance/takaful companies; provided that all inter related companies/ institutions, engaged in business of providing financial services shall appoint the same firm of auditors to conduct the audit of their accounts.
- Companies other than those in the financial sector shall, at a minimum, rotate the engagement partner after every 5 years.
- No company shall appoint a person as an external auditor or a person involved in the audit of a company who is a close relative, i.e., spouse, parents, dependents and non-dependent children, of the CEO, the CFO, an internal auditor or a Director of the company
- Every company shall require external auditors to furnish a Management Letter to its Board of Directors within 45 days of the date of audit report.
- Any matter deemed significant by the external auditor shall be communicated in writing to the Board prior to the approval of the audited accounts by the Board.

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