PICG Advisory Update -2

October - November 2016

A. Summary Table

Pakistan

Sr #	Issued by	Reference	Date	Topic / Update link
1	SBP	BPRD Circular No. 14 of 2016	Oct 20, 2016	Regulatory Framework on Corporate Governance for DFI's
2	SECP	S.R.O. 1045(I)/ 2016	Nov 9, 2016	Code of Corporate Governance for Insurers 2016
3	SECP	Press release	Nov 12, 2016	Companies Ordinance 2016 **Note: now repealed.**
4	Pending	-	N/A	New Audit report

International

Country	Topic	Links
UK	Green Paper	Corporate Governance Reform-Green paper- UK
South Africa	King IV Report	King IV Report on Corporate Governance

B. Synopsis of changes

Pakistan

1. Regulatory compliance for DFI's

The State Bank of Pakistan has issued a circular stating that the requirement for DFI's to follow the 'Code of Corporate Governance (issued by SECP)' under Para 1 of Regulation G-1 of the Prudential Regulations for Corporate/ Commercial Banking shall no longer be applicable on them. DFI's are, however, expected to continue to follow best practices on corporate governance and shall continue to ensure compliance with all other provisions of the Prudential Regulations.

The above instructions shall take immediate effect (ie. from October 12, 2016)

Note:

i. The above circular will not be construed as exemption from any provision/requirement of the Banking Companies Ordinance, 1962

ii. DFIs established as **Joint Venture Companies** will comply with all other provisions of the 'Prudential Regulations on Corporate Governance' as long as any matter thereof does not conflict with any provision of their Joint Venture Agreements.

2. Code of Corporate Governance for Insurers, 2016

The Code of Corporate Governance for Insurers, 2016, was issued by the Securities and Exchange Commission of Pakistan (SECP) via a notification, and shall be applicable to insurers as defined in clause (xxxi) of section 2 of the Insurance Ordinance, 2000. This notification supersedes SRO 68(1)/2003 dated January 24, 2003 and SRO 160(I)/ 2016 dated February 26, 2016, pertaining to the previous requirements and code for insurers.

The matters laid down in this code shall be in addition to the provisions/ conditions imposed for listed companies under the Code of Corporate Governance, 2012; and those imposed on public sector companies via the Public Sector Companies (Corporate Governance) Rules, 2013.
The provisions of the more stringent law shall take precedence in the event of any difference.

3. Companies Bill 2016

The Companies Ordinance, 2016 (the 2016 Ordinance) was promulgated by the President of Pakistan under Article 89 of the Constitution and came into effect on November 11, 2016. The 2016 Ordinance repealed and replaced the previous Companies Ordinance 1984 (the 1984 Ordinance).

47 members of the Senate tabled a resolution in the Senate disapproving the 2016 Ordinance, and this resolution was passed on December 15, 2016. Consequently, under Article 89 of the Constitution of Pakistan the 2016 Ordinance stood repealed as of December 15, 2016 and, as a consequence, it would appear that the 1984 Ordinance stands revived as of the same date. The Chairman SECP has in a recent statement confirmed that the 1984 Ordinance stands revived after the repeal of the 2016 Ordinance.

In the meantime the 2016 Ordinance had already been placed before the National Assembly and will go through the process of being considered and voted on by the National Assembly in due course. Once approved by the National Assembly it will be sent to the Senate for approval. If approved by the Senate and assented to by the President it will become law.

As regards all actions taken under the 2016 Ordinance between November 11, 2016 and December 15, 2016 these are all valid and effective and any violation of the 2016 Ordinance during that period may be prosecuted by the SECP under the 2016 Ordinance.

4. New Audit Report

The International Auditing and Assurance Standards Board's (IAASB) has issued new and revised Auditor Reporting Standards to enhance the relevance of auditor's reports while at the same time ensuring that common and essential content is being communicated.

In this regard, the Institute of Chartered Accountants of Pakistan has been consulting with the SECP to revise the audit report formats (Forms 35A, 35B and 35C) in order to align them with the requirements of the revised standards and local laws.

As per the new Standards, the changes are effective for audits of financial statements for periods ending on or after December 15, 2016. However, as a result of the 2016 Ordinance being repealed (as stated above), decision, regarding both the applicability of the new format and effective date, are awaited from the SECP. Consequently, till such time a decision is taken to incorporate the revised audit report requirements under the new auditing standards by SECP, the audit forms under the 1984 Ordinance remain applicable.

International

1. **Green Paper: Corporate Governance Reform**

   The UK government has issued a green paper on corporate governance reform in November 2016. The Green Paper seeks views on three areas where the government wants to consider options for updating their corporate governance framework:

   i. Shareholder influence on executive pay, which has grown much faster over the last two decades compared with pay generally and typical corporate performance;
   ii. Whether there are measures that could increase the connection between boards of directors and other groups with an interest in corporate performance such as employees and suppliers; and
   iii. Whether some of the features of corporate governance that have served well in listed companies should be extended to large privately-held companies at a time in which different types of ownership are more common.

   The Green Paper focuses on ensuring that executive pay is properly aligned to long term performance, giving greater voice to employees and consumers in the boardroom, and raising the bar for governance standards in the largest privately held companies.

   Note: A green paper is just a preliminary report of government proposals that is published in order to generate discussion, it is not binding, and is not part of the law.

2. **The King IV Report on Corporate Governance ™**

   The King IV Report on Corporate Governance™ (King IV) was launched on November 1, 2016 by the King Committee and the Institute of Directors in Southern Africa (IoDSA), which owns the intellectual rights to the King Reports and the governance codes they contain. The King Reports, of which this is the fourth version, contains the principles and leading practices for corporate governance in South Africa.

   King IV applies a principle and outcome based approach and moves away from a “tick the box” approach. In the earlier version (King III) there were 75 principles which have been consolidated into 16 with each being linked to specific outcomes. The focus being on ensuring that principles mentioned in the report achieve the given outcomes.

   In line with international developments, executives and directors remuneration has received greater prominence. The report requires that remuneration be disclosed in three parts:

   i. A background statement which explains the context for remuneration, consideration and decisions
   ii. An overview of remuneration policy
   iii. The detail of remuneration to each director and member of executive management.

   The Report also requires a non-binding vote by the shareholders at the AGM on both the policy and its implementation. In case either the policy or its implementation is voted against by 25% or more of the shareholders, the directors are required to engage with such shareholders to address their concerns.

   The Johannesburg Stock Exchange is considering the passing of the two non-binding resolutions and the boards’ responses as mandatory through its proposed amendments to the listing rules.