PICG
Pakistan Institute of Corporate Governance

Suite # 316, The Forum,
Khayaban-e-Jami, Block-9,
Clifton, Karachi - 75600.

ADVISORY UPDATE

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UPDATE

Life as we knew it pre-pandemic no longer exists. The world is now getting closer to adjusting to the circumstances that have become the "new normal", following the paradigm shifts which have been brought about over the past year and a half since the advent of COVID 19. There are a number of long-term implications, which are believed to have been accelerated with the help of the pandemic and a conscious awareness of these enables individuals and organizations to proactively adapt to this rapidly changing world.

Corporations have been establishing technological infrastructure for their employees and trainings on the utilization of technology. Obstacles around the use of technology and flexible working have been surmounted and with time, the concept of remote work has been found to be fairly manageable.

The pandemic offers an opportunity to reevaluate existing norms and structures and create new models of development. The time has come, for a new development paradigm with equal rights and opportunities for everyone, in which gender equality and social inclusion for women should be a priority.

Companies are now finding themselves at crossroads during strategy design and decision making processes on how to act in terms of implementing 'environment and socially responsible' initiatives. The decision on whether to reduce budgets for such initiatives or to integrate them even more actively into the core of the business has become a crucial one. The latter involving larger initial investment but reaping longer term benefits of enhanced sustainability and investment.

There is a need to shift our focus from the short term to the preventative long-term policies, based on a holistic view, therefore, this issue of PICG's Advisory Update explores the new frameworks and emerging priorities in the Covid-19 era. The world must be prepared for the potential impact the pandemic will bring about in the long run, leading to structural changes in policy framework and the process of economic globalization.

"A business that makes nothing but money is a poor business."

~ Henry Ford

ENVIRONMENT

Sr #	TOPIC	LINKS
Pakistan		
i.	SECP Press Release : Guidelines for Green Bonds Issuance	SECP's criteria for issuing Green Bonds
ii.	ADB Regional Projects: Building Coastal Resilience through Nature-Based and Integrated Solutions	ADB Technical Assistance Projects
International		
iii.	PWC's New Global Strategy	PWC's Report on addressing key issues across the world
iv.	MSCI Report for Asset Owners	MSCI ESG Framework for Asset Owners

Guidelines for Green Bonds

SECP's criteria for issuing Green Bonds

The Securities and Exchange Commission Pakistan (SECP) issued guidelines setting out the basic criteria for issuing Green Bonds. These include how individuals who are eligible to issue debt securities may also issue Green Bonds and the issuance must be done in accordance with the relevant domestic frameworks.

Green Bonds are those bonds from which the proceeds are used to finance environmentally friendly, and sustainability focused activities. In order to qualify as a green bond, SECP has stated that the proceeds must finance or refinance green projects or activities that bring energy efficiency, protect environment, utilize renewable energy, prevent and control pollution, use natural resources, pertain to projects related to land management, pollution free transportation, wastewater and water treatment.

In Pakistan, Green Bonds can be issued in accordance with globally accepted standards, such as International Capital Market Association's Green Bond Principles 2018, the Environmental Risk Management System and/or National/International environmental and social safeguards that are required by the issuer. Eligible projects are expected to be mapped to the UN's Sustainable Development Goals (SDGs).

The introduction of Green Bonds, along with their compliance of international standards, will hopefully pave the way for positive change in Pakistan's environment sector, pushing for greater sustainable investing and initiating projects for combating climate change across the country.

Coastal Resilience through Nature-Based & Integrated Solutions

Asian Development Bank – Regional Projects &Technical Assistance

The Asian Development Bank (ADB) has recently reiterated its commitment towards building coastal resilience within the Asia-Pacific region, including Pakistan, through nature-based solutions.

Being a coastal nation that relies heavily on the coast for import and export functions, it is essential to understand the shortcomings of the current coastal system and work towards strengthening Pakistan's coastal resilience. Such projects allow Pakistan to take greater precautions, increase development and ensure that their capacity-building is in line with global standards. They also provide Pakistan with the financial assistance to ensure that they have the means to achieve their development goals.

From an environmental perspective, building coastal resilience is also key to maintaining coastal wildlife and marine life and ensuring that water pollution is not only reduced but also kept at a minimum. While this project not only has long-term economic benefits for Pakistan, it will inadvertently also assist in protecting the country's environment.

The New Equation: New Global Strategy

PWC's Report on addressing key issues across the world

PWC (Canada) has recently released their new global strategy, The New Equation, focused on addressing key issues across the world such as technological disruption and the effects of the COVID-19 pandemic.

In terms of client engagement, the strategy is centered on two core needs:

- building trust and
- delivering sustained outcomes amidst high risk.

Amidst social and technological disruption, exacerbated by the global pandemic, it is essential for firms to adopt a client-facing approach, to retain existing clients and provide them with satisfactory services.

Additionally, 'The New Equation' sets out categories of planned investments to assist in PWC's global growth strategy. Such investments include technology, ESG practices, improving quality of business and building leadership skills. Focusing on ESG specifically, PWC will expand Centers of Excellence for specialists on key ESG topics such as climate change and encourage raising awareness of such fundamental issues.

The strategy set out by PWC (Canada) is encouraging the firm to invest in similar initiatives across the globe and push for greater discourse on ESG issues

MSCI: An ESG Framework for Asset Owners

How Asset Owners can use investments for a more sustainable future

With businesses around the world rapidly adopting to a greater focus on environmental, social and governance issues, the Morgan Stanley Capital International **(**MSCI) has recently set out an ESG framework for asset owners, helping such individuals to better understand the role of ESG in their assets and investments. MSCI maintains that using ESG considerations in one's investment process is essential and outlines six steps through which asset owners can use their investments to create a more sustainable future:

- Firstly, it is essential for asset owners to define their ESG objectives and policies.
- Secondly, defining one's strategic approach to ESG is necessary.
- Thirdly, it is essential to define your portfolio construction approach.
- Fourthly, factoring in ESG into risk management has proven to reduce risks overall.
- Finally, reporting on ESG practices is helpful in assessing one's performance.

An ethical company genuinely cares about the well-being of its employees, customers, suppliers and other audiences. It sees them as an end in itself, not just as a means to just make more money.

That is why, in times of difficulties, ethical companies have the goodwill, trust and support of their stakeholders. These audiences actively seek to help them in these circumstances because they realize that the organization is fair and has an important role in their lives.

- Prof. Dr. Alexandre Di Miceli

(professional speaker, business thinker and researcher on corporate governance, management, and business ethics

SOCIAL

Sr #	TOPIC	LINKS
Pakistan		
i.	ADB's Country Partnership Strategy, 2021–2025	Pakistan 2021-25: Lifting Growth, Building Resilience, Increasing Competitiveness + Inclusive and Sustainable Growth Assessment
ii.	SECP's Guidelines to promote gender equality, women empowerment & uplift the low-income segment of women in Pakistan	Guidelines on Issuance of Gender Bonds
iii	PSX announces appointment of First Woman Chairperson	Gender Inclusivity in Pakistan's Capital Markets
International		
iv	World Economic Forum on 'Jobs Reset' providing a new agenda for growth, jobs, skills and equity	The Jobs Reset Summit 2021
v	11th Asia-Pacific Financial Inclusion Forum	Emerging Priorities in the COVID-19 Era

"Democracy, good governance and modernity cannot be imported or imposed from outside a country."

- Emile Lahoud

ADB's Country Partnership Strategy 2021-2025

Strategy to respond to socio-economic challenges for Pakistan

The Asian Development Bank (ADB) has set out a Country Partnership Strategy (CPS) for 2021–2025 for Pakistan, aiming to respond to the socio-economic challenges that have arisen due to the coronavirus pandemic. The aim of the CPS is to support the country in addressing key structural and social issues by combining the Government of Pakistan's Development Strategy, ADB's Strategy 2030, and the UN Sustainable Development Goals (SDGs).

The CPS focuses heavily on social issues, ranging from gender inequality to the lack of education and public health services and ADB's assistance over the next 5 years prioritizes support for three pillars:

(i) improving economic management to restore stability and growth,

(ii) building resilience through human capital development and social protection to enhance productivity and people's well-being, and

(iii) boosting competitiveness and private sector development to create jobs and expand economic opportunities.

ADB also carried out an 'Inclusive and Sustainable Growth Assessment' to obtain more quantitative results, including comparing GDP figures as well as Pakistan's social indicators between pre-pandemic and current times. The Assessment states that weak institutions and governance remain key challenges for inclusive and sustainable growth in Pakistan, with the country's performance on Worldwide Governance Indicators being lower than the average score of South Asia.[1] The institution and governance issues limit the government's ability to devise effective policies and deliver pro-poor services for the vulnerable parts of the population. The CPS therefore aims to address the above with the identification of sub-sector focus areas and the right partners to ensure implementation of the framework.

Guidelines for the issuance of Gender Bonds

Harnessing Capital Market for Women Empowerment

The SECP has issued a press release centered on 'Harnessing Capital Market for Women Empowerment' to push for greater female inclusivity and encourage female entrepreneurship, especially in the finance sector. In order to achieve this target, the SECP has released guidelines for the issuance of Gender Bonds to increase financial inclusion of women, in accordance with the Securities Act 2015.

The guidelines aim to facilitate companies and issuers of debt securities to diversify their source of financing and provide an additional financial instrument to a particular class of investors. All individuals eligible to purchase debt securities (privately or publicly) are eligible to issue Gender Bonds. The funds from the

[1] World Bank. Worldwide Governance Indicators https://info.worldbank.org/governance/wgi/

aforementioned bonds will be directed towards projects targeted at financial literacy, economic empowerment and inclusivity for females across the nation. Most gender bonds issued have relied on the Institute of Capital Market Association (ICMA)'s Social Bond Principles, the UN's Sustainable Development Goals (SDGs) or the UN Women's Empowerment Principles as reference standards

As Gender Bonds remain a relatively new development across the financial sector globally, introducing them in Pakistan at an early stage is considered a tremendous step, not only for the country's economy, but for female empowerment in the long-run.

Gender Inclusivity in Pakistan's Capital Market

PSX's elects first-ever female Chairperson

For the first time in the 73 year history of the Pakistan Stock Exchange has the Board of Directors elected a female as its Chairperson. Dr. Shamshad Akhtar was unanimously elected as the PSX Board Chairperson in its first meeting of the newly elected PSX Board held on May 4, 2021.

Described as a 'veteran of the financial markets of Pakistan,' Dr. Akhtar has also held the honourable position of Governor, State Bank of Pakistan, in the past. She spearheaded the capital market development reforms during her tenure at the Asian Development Bank in 1990s and more recently worked with the industry on the Capital Market Roadmap in her capacity as the Caretaker Finance Minister.

PSX stated that the election of Dr. Akhtar to the board is a step in the right direction for increased female inclusivity in Pakistan, especially in the finance sector.

PSX's CEO, Mr. Farrukh H. Khan, welcomed the appointment of the first woman Chairperson of the Board and the new and returning directors. He said "We have an outstanding new board and I am confident that the newly appointed Board of Directors will lead and direct the Exchange to even greater heights of success, prosperity and progress for all stakeholders and Pakistan's capital markets".

World Economic Forum Jobs Reset

New agenda for growth, jobs, skills and equity

The World Economic Forum (WEF) held its 'Jobs Reset Summit' in June 2021 with the intention of facilitating an increase in jobs worldwide and helping individuals re-enter the workforce. As a result of the COVID-19 pandemic, the global workforce lost approximately 225 million full-time jobs, amounting to at least 4.4% of global GDP. This has been a serious socio-economic loss not only to the unemployed individuals, but also to the various sectors of the economy as a whole and, therefore, recovery plans need to be enacted for growth to resume on a large scale.

The Jobs Reset Summit 2021 convened over 500 leaders from government, business and civil society to shape a new agenda for growth, jobs, skills and equity. The action-focused virtual event focused on laying the

foundations of a new economy, one that provides opportunities for all. The participants explored the latest trends in employment and assessed the impact of the global pandemic on the economy.

The Summit and associated initiatives are dedicated to urgently "building back broader" by expanding access to education, reskilling and quality jobs, by embedding gender parity, racial equity and social justice, and by providing a platform for important debates on new growth models, taxation, the economic outlook and job creation.

Asia-Pacific Financial Inclusion Forum

Emerging Priorities in the Covid-19 Era

The Asian Development Bank (ADB), Foundation for Development Cooperation & APEC Business Advisory Council hosted the 11th annual Asia-Pacific Financial Inclusion Forum, focused on bringing together senior policy makers and industry representatives to develop concrete recommendations and action plans for advancing a financially inclusive and resilient COVID-19 recovery within the region.

The forum facilitated discourse on the economic challenges resulting from the global pandemic, especially those faced by vulnerable groups within the region. The objectives included:

- Exchange of public and private sector views on the latest financial inclusion trends, recent achievements, challenges, and opportunities pertaining to APEC and ADB member economies
- Spotlight COVID-19 era financial inclusion policy strategies, experiences, and lessons learned
- Provide a platform for brainstorming policy recommendations that could build digitally driven financial inclusion in Asia and the Pacific after the pandemic

The forum brought to light contrasting public and private sector views on the latest financial inclusion trends as well as provided a platform for industry leaders to share their policy recommendations on the way forward for the Asia-Pacific region's recovery. As the world slowly starts to move towards recovering from the global pandemic, it is essential that partnership between policy makers and industry representatives increases so as to provide a framework for socio-economic recovery across the globe.

GOVERNANCE

Sr #	By	Reference	Date	Topic / Update link
Pakistan				
i	SECP	Circular no. 20 of 2021	23-Jun-21	SECP specifies regulatory framework for Debt and Hybrid ETFs
ii	SBP	IBD Circular No. 01 of 2021	14-Jun-21	Shari'ah Non-Compliance Risk Management
iii	SECP	Guidelines	2-Jun-21	Guidelines For Mutual Fund Digital Distribution Platform
iv	SECP	Press Release	29-May-21	SECP Approves Framework for Direct Listing of Companies at PSX
v	SECP	S.R.O.455(I)/2021	8-April-21	Amendments to Real Estate Investment Trust (REIT) Regulations 2015
vi	SECP	Press Release	6-Apr-21	SECP Opens Second Cohort under its Regulatory Sandbox

PICG leading the way on Board Diversity

The Institute's Articles of Association were amended to role model higher standards of governance whereby:

- 1/3rd of the Board must be women
- 1/3rd of the Board must be independent directors
- Chair of the Board must be independent
- No Board member shall hold office for more than 2 consecutive terms

International

Sr #	Reference	Date	Link
i	OECD report on Institutional, Legal and Regulatory Frameworks for Corporate Governance in 50 jurisdictions	June 2021	The OECD Corporate Governance Factbook 2021
ii	OECD report on future course of governance actions required for capital markets post COVID-19 Crisis	June 2021	The Future of Corporate Governance in Capital Markets
iii	OECD report on the impact of the crisis and policy responses on SMEs and entrepreneurs	June 2021	OECD SME and Entrepreneurship Outlook 2021
iv	OECD report benchmarking against the Ten Global Principles to fight against tax crimes & way forward	June 2021	Fighting Tax Crime – The Ten Global Principles (Second Edition)
v	FRC (UK) research report on changes in remuneration reporting following the UK Corporate Governance Code 2018	May 2021	FRC's Research Report on Remuneration Reporting
vi	FRC (UK) review of Interim Reporting of 20 quoted companies.	May 2021	Thematic Review – Interim reporting
vii	OECD's voluntary 'Transparency and Disclosure Standard' for internationally active state-owned enterprises and their owners	May 2021	Maintaining Competitive Neutrality
viii	The Securities Commission of Malaysia's update of the Malaysian Code on Corporate Governance	April 2021	Malaysian Code on Corporate Governance (2021)

PAKISTAN

Amendments to REIT Regulations 2015

SECP revamps REIT Regulations to promote real estate activity in organized sector

The SECP has introduced a new Public Private Partnership (P3) model under REITs to promote investment in the real estate sector through Real Estate Investment Trusts (REITs), besides also revamping the regulatory framework for REITs through amendments made to the REIT Regulations

The amendments have shifted the regulatory structure from approval-based to disclosure-based issuance, reducing entry barriers for new REITs, making REITs competitive with the unorganized sector led real estate projects, cutting down regulatory approvals and attracting domestic and foreign investment into the formal real estate sector of the country.

The changes took place after consultations with stakeholders, with a view to bring in amendments that were in conformity with domestic market conditions and in sync with globally recognized norms. Under the revised framework the REIT Management Companies (RMCs) may pursue developmental, rental or hybrid options under both conventional and infrastructure categories. Moreover, a number of regulatory approvals and document submission requirements have been rationalized.

SECP stated that the regulations have been finalized after a number of consultations with stakeholders, with a view to bring in amendments in conformity with domestic market conditions and in sync with globally recognized norms.

Framework for issuance of Debt & Hybrid ETFs

SECP diversifies the range of Exchange Traded Funds (ETFs)

In line with its objectives of creating a competitive and conducive playing field and to diversify the range of Exchange Traded Funds (ETFs) available to investors, SECP has specified the framework for issuance of Debt and Hybrid ETFs through Circular No 20 of 2021 dated June 23, 2021.

The existing framework for Equity ETFs has also been updated and the Circular specifies the procedure for listing, trading, clearing and settlement of ETF units, besides the disclosure requirements for asset management companies and the obligations of market makers / authorized participants.

Just like equity ETFs, the debt ETFs are also passively managed and traded on a regular exchange. Debt ETFs allow ordinary investors to gain passive exposure to fixed income securities such as corporate bonds or treasuries in an inexpensive way, while Hybrid ETFs allow investment in an index which has both debt and equity securities. Investment in Debt ETFs is suited to investors with a low risk profile, as it provides a strong

defensive addition to their investment portfolios. Internationally, ETFs are among one of the fastest growing investment products which are being customized to cover specific arrays of sectors, stocks, commodities, bonds, futures and other asset classes. The ETFs provide investors with benefits such as trading flexibility; diversification of overall portfolio and transparency in terms of publishing underlying holdings on a daily basis.

SECP envisions that the introduction of debt and hybrid ETFs at the Pakistan Stock Exchange will bring Pakistan's capital market at par with other regional and international jurisdictions and will go a long way in promoting capital formation and market development.

Shari'ah Non-Compliance Risk Management

IBD Circular No. 01 of 2021

The State Bank of Pakistan (SBP) has issued exclusive instructions on Shariah Non-Compliance Risk (SNCR) management, aimed at enhancing the stability and soundness of Islamic banking. The foundation of Islamic Banking lies in compliance with Shariah rules and principles in all its business activities and operations, and the adoption of uniform practices will help in maintaining consistency over time and across Islamic Banking Institutions (IBIs). SNCR is a distinctive risk faced by IBIs, and due to the increasing size of the Islamic Banking industry in terms of assets and deposits, diversified operations, products and services - focused management of SNCR becomes a necessity.

As per SBP's instructions, IBIs should take necessary steps to ensure that relevant members of the Board and Senior Management possess requisite knowledge and understanding of the risk management of SNCR as the instructions require them to approve and ensure implementation as a part of the overall risk management framework, in line with the size and complexity of their business. The SNCR management framework shall be developed using SBP's instructions on Shariah principles and decisions in conjunction with rulings and fatawa of the Shariah Board of the IBI as key reference points. These will allow for the identification of risks and controls in different products, services, and business activities.

Further, IBIs are required to ensure an appropriate reporting mechanism is in place, including frequency and thresholds for reporting of SNCR events to the Board and/ or its sub-committee; and IBIs are required to maintain proper records of Shariah non-compliant events or transactions and furnish them to SBP on a quarterly basis.

The issuance of these instructions coupled with the existing Shariah Governance Framework aims to help achieve targets laid down in the third strategic plan for Islamic banking recently issued by SBP

Guidelines for Mutual Fund Digital Distribution Platform

Broadening the investor base of the Non-Banking Finance Services sector

The SECP has issued guidelines on Mutual Fund Digital Platforms (MFDP) in efforts to promote digitization and broaden the investor base in the Non-Banking Finance Services sector. Digital Distribution Platforms act like a one-stop shop that allows investors, financial advisors, and wealth managers to select a range of different retail investment products from a single point of contact in a timely, efficient and transparent manner. Such online platforms help individual investors to identify and compare various financial products that are offered in the marketplace, and choose the one that best suits their investment objective and risk profile.

The Guidelines were issued under section 282B (3) of the Companies Ordinance, 1984 and section 172 of the Securities Act, 2015 and sets out principles and requirements applicable to MFDP for Collective Investment Schemes (CIS) and or Voluntary Pension Funds (VPS) operated by licensed/ regulated entities/ individuals[2].

The Guidelines prescribe the minimum requirements for conducting licensed/ regulated activities relating to order execution, distribution and/or advisory services in respect of distribution of CIS/ VPS units through Online Platforms including digital advice or automated advice (i.e. robo-advice), here-in-after referred to as Digital Distributors in these guidelines.

Digital Distributors are required to ensure adherence to ethical selling guidelines issued by MUFAP as amended from time to time, however, the Guidelines do not have the force of law and are not to be interpreted in a way which would override the provision of any law for the time being in force.

SECP Approves Framework for Direct Listing of Companies at PSX

Enabling an eco-system to improve capital formation

In order to provide an enabling ecosystem to improve capital formation in the country, the SECP in coordination with the Pakistan Stock Exchange (PSX), has approved the framework for Direct Listing of companies at PSX. Direct listing, unlike conventional offerings, is a process whereby a company can get listed on the stock exchange by selling existing shares to accredited investors, existing shareholders, and specific category of investors, without mandatory appointment of intermediaries, thereby simplifying the process of listing of companies on the stock exchange.

Currently, a company that intends to go public has to involve an investment bank that helps determine the company value, and advises on an opening share price. The process includes hiring financial advisors,

[2] A licensed/ regulated entity may operate different websites, platforms and other channels such as social media accounts for posting information about CIS/ VPS and transacting in them. SECP will take into account activities targeting investors conducted by a licensed/ regulated entity or individual via all channels in their totality while considering the licensed/ regulated entity's or individual's compliance with the requirements in these Guidelines.

conducting road shows to develop public interest, and then incurring fees, including possible underwriting costs, for all the services at each step of the listing process. Hence, the new framework shall potentially reduce the cost of pre-listing.

The framework was finalized after public and stakeholder consultation and shall be a part of the regulatory framework of PSX i.e., PSX Rule Book. Any public limited company having a minimum paid up capital of Rs200 million and audited accounts for two preceding years, may apply for listing through this method, however, the companies shall be required to ensure post listing compliance, as applicable for listed companies.

The framework approved by PSX and SECP aims to foster growth of capital markets, promote healthy competition and ensure investor protection.

SECP Opens Second Cohort under its Regulatory Sandbox

Encouraging innovation in SECP's Regulated sectors

The SECP launched of the second cohort of its Regulatory Sandbox, aiming to encourage innovation in its regulated sectors. The Regulatory Sandbox is a tailored regulatory environment that allows entities/firms to conduct limited scale live tests of innovative products, services, processes, and business models, in a controlled environment.

SECP had issued the Regulatory Sandbox Guidelines 2019 early last year to guide on the process and objective of the Sandbox. It is primarily applicable for new products, services or business models which have not been addressed under existing laws and regulations; or these new ideas bring an innovative approach to the market and there exists considerable uncertainty in terms of unexpected adverse outcomes / existing regulatory framework does not fully address the solutions proposed to be experimented through the Regulatory Sandbox. The second cohort was open for all eligible persons including registered companies, unregistered start-ups and FinTech firms. The unregistered entities would have to get registered upon successful experiment.

The Commission has formed a six-member committee, headed by Chairman SECP to evaluate the applications. In the second cohort preference shall be given to innovation in the areas of Digital Assets/Security Token Offerings (STOs), Non-Bank Financial Companies, Blockchain/ Distributed Ledger Solutions for Capital Markets, Digital Identity/AML/KYC, Artificial Intelligence, Machine Learning and Robotic Processes Automation based solutions. Female entrepreneurs have also been highly encouraged to apply and all the applications will undergo preliminary screening and detailed evaluation.

Successful applicants will be allowed to test and experiment their innovative ideas and solutions for a period of six months. Upon completion of the experimentation period, the entities registered in the Sandbox will submit a detailed completion report to SECP, following which a future course of action for the tested solutions will be determined.

INTERNATIONAL

OECD Corporate Governance Factbook 2021[3]

Institutional, legal & regulatory frameworks for corporate governance

The Organisation for Economic Co-operation and Development (OECD) Corporate Governance Factbook information about the institutional, legal and regulatory frameworks for corporate governance across 50 jurisdictions worldwide (including all 38 OECD countries plus Argentina, Brazil, China, Hong Kong (China), India, Indonesia, Malaysia, Peru, Russian Federation, Saudi Arabia, Singapore and South Africa).

This 2021 edition of the OECD Corporate Governance Factbook offers a comprehensive account of how the G20/OECD Principles of Corporate Governance are implemented around the world and supports informed policy-making by providing up-to-date information on the ways in which different countries translate the Principles' recommendations into their national legal and regulatory frameworks. The Factbook, therefore, can be used by governments, regulators and the private sector to compare their own frameworks with those of other countries and also to get information on practices in specific jurisdictions.

The 2021 edition of the Factbook is an important baseline of existing practices that may be referred to in the upcoming review of the G20/OECD Principles of Corporate Governance and is divided into four main areas:

- Global market and corporate ownership landscape
- Corporate governance and institutional framework
- Rights of shareholders and key ownership functions
- Corporate board of directors

The 2021 edition includes new material on global market landscape, including how capital markets have evolved during the COVID-19 pandemic, new coverage of the oversight of audit, proxy advisory services, gender balance on boards, as well as significant updates across many other issue areas, reflecting dynamic changes to regulatory and institutional frameworks around the world. The report also covers areas such as risk and crisis management (including health, supply chain and environmental risks) as well as issues related to audit quality, increased ownership concentration and complex company group structures.

The Factbook states that in order to rebuild economies in the wake of the COVID-19 crisis and promote stronger, cleaner and fairer economic growth, good corporate governance plays an essential role. It fosters an environment of market confidence and business integrity that supports capital market development. The quality of a country's corporate governance framework is decisive for the dynamism and the competitiveness of its business sector and the economy at large. It will also support the corporate sector to manage environmental, social and governance (ESG) risks and better harness the contributions of different stakeholders, be it shareholders, employees, creditors, customers, suppliers, or adjacent communities, to the long-term success of corporations.

[3] OECD (2021), "OECD Corporate Governance Factbook 2021", https://www.oecd.org/corporate/corporategovernance-factbook.htm.

The Future of Corporate Governance in Capital Markets following the COVID-19 Crisis[4]

Impact of the crisis on the use of capital markets

This report provides an evidence-based overview of developments in capital markets globally leading up to the COVID-19 crisis. It then documents the impact of the crisis on the use of capital markets and the introduction of temporary corporate governance measures.

The report states that although the structural effects of the crisis on capital markets and its interplay with corporate governance remain to be fully understood, this report presents trends that can be used to shape policies that will support the recovery and formulates key policy messages that will guide the upcoming review of the G20/OECD Principles of Corporate Governance.

The report also highlights the need to adapt corporate governance rules and practices to the post-COVID-19 reality, particularly in the areas of:

- increased ownership concentration;
- environmental, social, and governance (ESG) risk management;
- digitalisation;
- insolvency;
- audit quality, and
- creditor rights

The report emphasises that the road to recovery will require well-functioning capital markets that can allocate substantial financial resources for long-term investments

OECD SME and Entrepreneurship Outlook 2021[5]

Impact of the crisis & policy responses on SMEs & entrepreneurs

The OECD SME and Entrepreneurship Outlook 2021 brings evidence on the impact of the crisis and policy responses on SMEs and entrepreneurs. It reflects on longer-term issues, such as SME indebtedness or SME role in more resilient supply chains or innovation diffusion.

According to the report, Small and Medium-sized Enterprises (SMEs) and entrepreneurs have been hit hard during the COVID-19 crisis. Policy responses were quick and unprecedented, helping cushion the blow and maintain most SMEs and entrepreneurs afloat. Despite the magnitude of the shock, available data so far point to sustained start-ups creation, no wave of bankruptcies, and an impulse to innovation in most OECD countries.

The report contains country profiles that benchmark impact, factors of vulnerability, and sources of resilience in OECD countries, and give a policy spotlight on liquidity support and recovery plans for SMEs.

[4] OECD (2021), *The Future of Corporate Governance in Capital Markets Following the COVID-19 Crisis*, Corporate Governance, OECD Publishing, Paris, https://doi.org/10.1787/efb2013c-en.

[5] OECD (2021), *OECD SME and Entrepreneurship Outlook 2021*, OECD Publishing, Paris, https://doi.org/10.1787/97a5bbfe-en.

However, government support has been less effective at reaching the self-employed, smaller and younger firms, women, and entrepreneurs from minorities. Countries were not all even in their capacity to support SMEs either. As vaccine campaigns roll out and economic prospects brighten, governments have to take the turn of a crisis exit and create the conditions to build back better.

The pandemic has highlighted the need to make SMEs more resilient to future challenges. In particular, the crisis exposed those that had yet to convert to the digital business tools and business models that proved essential to operations during periods of social distancing. Adoption of these accelerated rapidly, with 50% of SMEs increasing digital up-take during the pandemic. Yet, for these firms and many others the transition is not yet complete, and new threats around cyber security need to be tackled.

Fighting Tax Crime – The Ten Global Principles (Second Edition)

A comprehensive guide to fighting tax crimes

First published in 2017, 'Fighting Tax Crime: The Ten Global Principles' is the first comprehensive guide to fighting tax crimes. It sets out ten essential principles covering the legal, institutional, administrative, and operational aspects necessary for developing an efficient and effective system for identifying, investigating and prosecuting tax crimes, while respecting the rights of accused taxpayers.

This second edition addresses new challenges, such as tackling professionals who enable tax and white-collar crimes and fostering international co-operation in the recovery of assets. Drawing on the experiences of jurisdictions in all continents, the report also highlights:

- successful cases relating to the misuse of virtual assets,
- complex investigations involving joint task forces, and
- the use of new technology tools to fight tax crimes and other financial crimes.

….jurisdictions need to engage actively in cross-border co-operation in the fight against tax crimes, including through the use of information-sharing mechanisms, and by incorporating counter-strategies against professional enablers into their national strategies.

This new edition recommends that jurisdictions benchmark themselves against each of the Principles. This includes identifying areas where changes in law or operational aspects are needed, such as increasing the type of investigative or enforcement powers, expanding access to other government-held data, developing or updating the strategy for addressing tax offences, and taking greater efforts to measure impacts.

The report also underlines that jurisdictions need to engage actively in cross-border co-operation in the fight against tax crimes, including through the use of information-sharing mechanisms, and by incorporating counter-strategies against professional enablers into their national strategies. As cases become more complex, setting up joint taskforces and intelligence-sharing groups, both in the domestic and international arena, becomes increasingly important.

Financial Reporting Council's Remuneration Report

Changes in Remuneration Reporting following the UK Corporate Governance Code 2018

The Financial Reporting Council (FRC) published the results of a research jointly conducted by the FRC and the University of Portsmouth to determine the extent to which requirements on directors' remuneration set out in the UK Corporate Governance Code (2018 Code) has been applied by the FTSE 350 companies. The FRC commented that while the Code requirements on directors' remuneration have had a positive impact on reporting, many company reports still lack detail and outcomes and include standardised boilerplate disclosures.

For the purposes of the research, the remuneration policy disclosures of a sample of FTSE 350 companies during periods both before and after the introduction of the 2018 Code were analysed. Shareholder voting on companies' revised remuneration policies at their 2020 annual general meetings was also analysed and evidence of the impact of the Code's new Principles and Provisions in this area was assessed.

The research found the following:

- Extent of disclosure of remuneration policies has increased since the introduction of the 2018 Code.
- More use of non-financial KPIs and an improvement in the clarity of reporting.
- Most of the companies in the sample were keen to report shareholders' engagement although few mentioned the detail of this engagement with the workforce in the remuneration committee report.
- FTSE 100 companies adhere to the 2018 Code requirements to a greater extent than FTSE 250 companies.
- Companies paid more attention to Principle P (concerning the design of remuneration policies and practices) than Principle E (concerning consistency of workforce policies and practices with the company's values), with a variation in the disclosure extent for the provisions among sectors.
- Shareholder dissent on changes to directors' remuneration policy appears not only to be about maximum pay, but also about other issues surrounding those pay packages, for example, changes within the company or external factors such as the level of directors' pay relative to income and pay of other employees in difficult times due to COVID-19.
- Companies' comments on shareholder dissent were mixed, with some companies being defensive, but most companies appearing genuinely concerned, wishing to find out the reasons for shareholder dissatisfaction, and to seek remedies

The 2018 Code also encouraged that a company's remuneration and workforce policies align with its long-term values and success, and that the setting of directors' pay is done in the context of wider employee pay, however, enhanced clarity in reporting by companies is required in this regard.

FRC's Thematic Review – Interim Reporting

Results of review of Interim Reports of 20 quoted companies(UK)

The Financial Reporting Council (FRC) published the results of a thematic review of interim reporting that was conducted to highlight areas of good practice in recently published interim reports and to make suggestions for improved reporting to meet the needs of stakeholders.

The report stated that the overall quality of the interim reports reviewed (ie. 20 quoted companies whose interim period ended between Jun- Sept 2020) had improved, but made the following observations:

- Companies enhanced their disclosures particularly in relation to going concern and the statement of cash flows and related notes.
- Management commentaries provided an overview of the key events in the first half of the year and how these had affected operations and results. The best ones differentiated the impact that the various stages of the pandemic had on the financial statements.
- Where necessary, companies gave an update of the risks and uncertainties for the remaining six months of the financial year.
- Majority of the companies in their sample provided detailed explanations of their use of Alternative Performance Measures (APMs) and reconciliations to GAAP measures.
- An impairment assessment is required at the half year if there is an indicator of impairment. Impairments of goodwill recognised during an interim period cannot be reversed in the future. Better disclosures of impairments included reasons for the impairments and quantified the key assumptions used in the impairment assessments.
- The best examples of changes in estimates disclosures included: an update of the IAS 1 'Presentation of Financial Statements' estimation uncertainty disclosures, where relevant, in addition to disclosing the nature and amount of the changes in estimate.
- Better disclosures of significant changes in current and deferred tax balances included a breakdown of the components of the tax charge and the deferred tax balance by category of temporary difference.
- When an event or transaction is significant to an understanding of the changes in financial position and performance of the company, since the last annual reporting period, better disclosures followed the disclosure guidance of individual IFRSs to provide updated relevant information.

The review highlighted the fact that there were still opportunities for further improvement, and the FRC encouraged preparers to consider the results of the review carefully when preparing their forthcoming interim reports. Further, the FRC stated that it expects companies to communicate material information/disclosures clearly and concisely.

SOE Transparency and Disclosure Standard[6]

'Maintaining Competitive Neutrality' – OECD's voluntary standard for internationally active State-Owned Enterprises and their owners

This voluntary standard is intended to outline a set of best practices for transparency and disclosure by internationally-active State-Owned Enterprises (SOEs) and their owners. The standard also aims to support the preservation of competitive neutrality and ensure that internationally-active SOEs operate efficiently, transparently and on equal footing with private companies in the global marketplace.

The Standard states that ensuring high standards of transparency and high quality of disclosure are the very basis of any sound corporate and public governance regime, and high standards of accountability in SOEs can contribute to improved efficiency and performance of SOEs.

Information disclosure including both financial and non-financial data is essential for:

- the government, so it can be an effective owner;
- the Parliament to evaluate the performance of the State as an Owner;
- the media to raise awareness on SOE efficiency; and
- Taxpayers and the general public to have a comprehensive picture of SOE performance.

Transparency and disclosure is also key to ensure competitive neutrality with other market participants. It ensures that other market actors and regulatory authorities can objectively assess SOEs' business and governance practices based on a broad range of criteria, including:

- corporate orientations of a SOE;
- the clarity of objectives pursued by a SOE (i.e. public policy or other non-economic objectives);
- its governance (i.e. by the government owner, ownership arrangements and regulatory treatment; and in the independence and autonomy of the board);
- transparency, accountability and disclosure practices related to public policy objectives, subsidies or other forms of governance support;
- the competitive situation of a SOE (regulatory treatment and funding and financing situation); and,
- responsible business conduct practices.

[6] OECD (2021), Maintaining competitive neutrality: Voluntary transparency and disclosure standard for internationally active SOEs and their owners, www.oecd.org/corporate/maintaining-competitive-neutrality.htm

Malaysian Code on Corporate Governance (2021)

The Securities Commission Malaysia Report

The Securities Commission Malaysia (SC) issued an updated version of the Malaysian Code on Corporate Governance (MCCG), with the introduction of new best practices and further guidance to strengthen the corporate governance culture of listed companies by:

- improving board policies and processes including those related to director selection, nomination and appointment;
- strengthening board oversight and the integration of sustainability considerations in the strategy and operations of companies; and
- encouraging the adoption of the best practices (particularly those found to have relatively lower levels of adoption) as highlighted in the SC's Corporate Governance Monitor report.

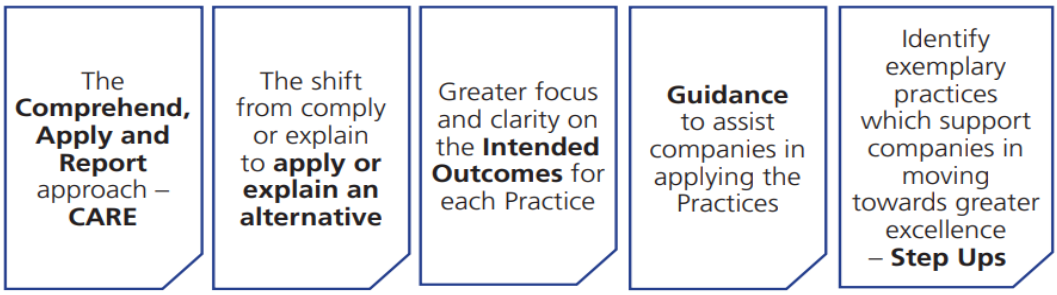
The MCCG 2021 also addresses the urgent need for companies to manage Environmental, Social and Governance (ESG) risks and opportunities. The global commitment and acceleration of efforts to transition towards a net zero economy has resulted in demand for greater action on the part of corporates. The SC's review of sustainability statements by large listed companies found that some have begun to address climate-related risks but more can and needs to be done.

In order to promote the exercise of objective and independent judgment in line with global best practices, the MCCG 2021 discourages the appointment of active politicians on the boards of listed companies. The SC also found that issues relating to re-appointment of long-serving independent directors remain a concern. To encourage periodic refresh of board composition, the MCCG recommends that the two-tier voting process be implemented for re-appointment of independent directors with tenures of more than nine years. The two-tier voting process which was first introduced in 2017, acts as a speed bump for boards and shareholders to carefully evaluate the decision to retain independent directors with tenures of more than 12 years, and provide minority shareholders the opportunity to vote against such retention in the second tier voting process..

The participation of women on boards currently stands at 25.3% for the top 100 listed companies, although the target was to reach at least 30% by end of 2020. To accelerate the progress of women participation on boards, the MCCG 2021 recommends all listed companies to have boards that comprise at least 30% women directors. (The 2017 MCCG had recommended having 30% women directors on boards of Large Companies)

The first batch of companies to begin reporting on their adoption of MCCG 2021 practices will be those with financial years ending 31 December 2021. The two-tier voting process will be applicable for resolutions tabled at general meetings held on or after 2 January 2022.

Key features of the MCCG



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http://picg.org.pk/publications/

For questions/comments contact:
shafaq@picg.org.pk

Suite No. 316, The Forum,
Khayaban e Jami Block 9,
Clifton, Karachi- 75600
+92-21-35306673-4
Ext: 106

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