



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## Adjudication Department-I

### Adjudication Division

ORDER	
Name of Company	M/s Metropolitan Steel Corporation Limited
Show Cause Notice No. & Date:	No. CSD/ARN/62/2015 - 944 dated February 24, 2025
Respondents:	(i) Mr. Mahmood Ali Mehkari, Chairman; (ii) Mr. Muhammad Umar Mehkari, Chief Executive Officer; (iii) Mr. Irshad Ali Pitafi, Independent Director; (iv) Ms. Uzma Mehmood Ali Mehkari, Non-Executive Director; (v) Ms. Sofia Zakaria, Non-Executive Director; (vi) Ms. Sara Mehmood Mehkari, Executive Director; (vii) Ms. Saba Mehkari Farooqui, Executive Director; and (viii) M/s Metropolitan Steel Corporation Limited
Date(s) of Hearing(s):	(i) March 19, 2025; and (ii) April 07, 2025
Case represented by:	(i) Mr. Muhammad Umar Mehkari, Chief Executive Officer; (ii) Mr. Irshad Ali Pitafi, Independent Director; (iii) Ms. Sofia Zakaria, Non-Executive Director; and (iv) Ms. Saba Mehkari Farooqui, Executive Director (As Authorized Representatives)
Provision of law involved:	Regulations 8, 27 and 36 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 read with Regulation 37 thereof and Sections 169 and 512(2) of the Companies Act, 2017
Date of Order:	April 30, 2025

This Order shall dispose of the proceedings initiated by the Securities and Exchange Commission of Pakistan (the “Commission”) through the Show Cause Notice No. CSD/ARN/62/2015-944 dated February 24, 2025 (“SCN”) against M/s Metropolitan Steel Corporation Limited (the “Company”) and Board of Directors (“BoD”), including the Chief Executive Officer (“CEO”), hereinafter collectively referred to as the “Respondents”, issued under regulations 8, 27 and 36 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the “CCG Regulations”) read with regulation 37 thereof and Sections 169 and 512(2) of the Companies Act, 2017 (the “Act”).

2. The provisions of sub regulation (1) of regulation 8 of the CCG Regulations provides that it is **mandatory** for each listed company that its executive directors, including the Chief Executive Officer (“CEO”), shall not be more than one-third of the Board. Furthermore, regulation 27(1)(i) and (ii) of the CCG Regulations provides that it is **mandatory** that the Board Audit Committee (“BAC”) shall be constituted by the BoD keeping in view the following requirements:

- (i) the Board shall establish an audit committee of at least three members comprising of non-executive directors and at least one independent director; and
- (ii) chairman of the committee shall be an independent director, who shall not be the chairman of the Board; and
- (iii) the Board shall satisfy itself that at least one member of the audit committee shall be “financially literate”;

3. Moreover, sub-regulation (2) of regulation 27 of the CCG Regulations provides that it is **mandatory** that the head of internal audit of the company and external auditor shall attend the meeting of BAC at which issues relating to accounts and finance are discussed while it is also **mandatory** for the BAC to meet the external auditor, at least, once every year. Furthermore sub-regulation (5) of regulation 27 of the CCG Regulations makes it **mandatory** for the secretary of BAC to circulate the minutes of meetings of BAC prior to next meeting of

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the Board. Moreover, sub-regulation (1) of regulation 36 of the CCG Regulations provides that it is **mandatory** that the company shall publish and circulate a statement along with their annual reports to set out the status of compliance with the requirements of the CCG Regulations and the said statement shall be specific and supported by necessary explanations.

4. The penalty for non-compliance of the aforementioned provisions of regulations 6, 27 and 37 of the CCG Regulations attracts a penal action under regulation 37 of the CCG Regulations. Regulation 37 of the CCG Regulations provides that whoever fails or refuses to comply with, or contravenes Regulations 8, 27 and 36 of the CCG Regulations, shall be punishable with penalty as provided under sub-section (2) of Section 512 of the Act, which provides that any regulation made under sub-section (1) may provide that a contravention thereof shall be punishable with a penalty which may extend to five million rupees and where the contravention is a continuing one, with a further penalty which may extend to one hundred thousand rupees for every day after the first during which such contravention continues.

5. Brief facts of the case are that the Company, in terms of regulations 8(1), 27(1), 27(2), 27(5) and 36(1) of the CCG Regulations was **mandated**: (i) that its executive directors does not exceed one-third of size of its board; (ii) to establish a BAC comprising of non-executive directors, at least one independent director as chairman of the BAC and at least one financially literate member; (iii) that the head of internal audit of the company and external auditor to attend meetings of BAC at which issues relating to accounts and finance are discussed; (iv) BAC to meet external auditor, at least, once every year; (v) that secretary of BAC to circulate the minutes of meetings of BAC prior to next board meeting; and (vi) publish and circulate along with its annual report, a statement setting out its status of compliance with the CCG Regulations.

6. The Auditor of the Company i.e. M/s Reanda Haroon Zakaria Aamir Salman Rizwan & Company, Chartered Accountants ("**the Auditors**") in their review report dated September 27, 2024 on the Statement of Compliance with the CCG Regulations ("**SoC**") highlighted following non-compliances with the mandatory provisions of the CCG Regulations:

- (i) *The Board of the Company comprises of seven (7) directors and the Company has appointed three (3) executive directors contrary to the requirement prescribed under regulation 8(1) of the Regulation;*
- (ii) *BAC of the Company comprises of two non-executive directors and does not include any independent director, hence is not chaired by an independent director. Further none of the members of BAC is financially literate which is contrary to the requirements prescribed under regulation 27(1) of the Regulations;*
- (iii) *BAC did not ensured attendance of the head of internal audit of the Company and external auditor in its meeting wherein issues relating to accounts and finance were discussed contrary to the requirements under regulation 27(2)(iii) of the CCG Regulations. Further in contravention of 2<sup>nd</sup> proviso of regulation 27(2)(iii) of the CCG Regulations, the BAC did not even meet once with the external auditor during the year;*
- (iv) *The minutes of the meeting of BAC were not circulated in accordance with the procedure prescribed under regulation 27(5) of the CCG Regulations;*
- (v) *The Company, contrary to the requirements of regulation 36(1) of the CCG Regulations, failed to provide explanation for non-compliance with the following provisions of the CCG Regulations:*

Sr. #	Regulation #	Description
1.	6(1)	There is only one independent director on the Board
2.	8(1)	There are three executive directors on the Board which exceeds one third of the total board members

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3.	10(3)(ii)	There is no formal code of conduct or code of ethics policy
4.	10(3)(iii)	There is no adequate system or controls for redressal of grievances arising from unethical practices
5.	10(3)(iv)	No system of sound internal control established
6.	10(4)	BoD does not maintain a complete record of particulars of significant policies along with their date of approval and updating
7.	24	Qualification of Company Secretary does not meet the specified criteria
8.	27	AC comprises of two executive directors, no independent directors. AC chair is not an independent director and none of its member is financially literate. AC did not meet the external auditor and its meeting were not circulated, as required.
9.	28(1)	HR and Remuneration committee does not constitute of majority of non-executive directors. No evidence that meeting of HR and Remuneration Committee was held during the year ended June 30, 2024.
10.	35	Website is not operational which leads to non-disclosure of significant policies

(vi) The Company has mentioned the details of non-compliances with the provisions of the CCG Regulations in para 19 of SoC, however failed to explain the reasons for the same, contrary to the requirements of regulation 36(1) of the CCG Regulations. The details of said non-compliances are tabulated below:

Sr. #	Regulation #	Description
1.	10	Responsibilities of the Board and its members
2.	10A	Role of Board and its members to address Sustainability Risks and Opportunities
3.	16	Formal policy for remuneration of individual directors
4.	19	Director's Training Program and female executive & head of department Training Program
5.	20 & 22	Appointment of Chief Financial Officer
6.	23	Appointment of internal auditor
7.	25	Financial statement endorsed by chief financial officer and CEO
8.	29 & 30	Board sub-committees
9.	31	Composition of internal audit function

7. In order to probe the matter, the Commission vide letters dated December 03, 2024 and December 09, 2024 sought clarification from the Company regarding the afore-said non-compliances highlighted by the Auditor. In response, the Company vide letters dated December 05, 2024 and December 16, 2024, *inter-alia*, stated that it is planning to reduce the executive directors to one-third of the board members and to hire independent directors by June 30, 2025. The Company further informed that the BAC has been reconstitution to comply with the requirements of law.

8. The aforesaid indicated that the Company had, *prima-facie*, contravened the mandatory requirements of the regulations 8(1), 27(1), 27(2), 27(5) and 36(1) of the CCG Regulations which attracts penal action as provided under regulation 37 of the Regulations and Section 512 of the Act.

9. Accordingly, SCN was served upon the Respondents, requiring them to show the cause as to why a penal action, as provided under regulation 37 of the CCG Regulations read with Sections 169 and 512 of the Act may not be taken against them for the aforementioned contravention of the law. However, no response was submitted by the Respondents.

10. In order to provide an opportunity of being heard to the Respondents, hearing in the matter was first fixed for March 19, 2025 which was adjourned on the request of the Respondents. Later, in order to meet the

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ends of justice, hearing in the matter was re-fixed on April 07, 2025 at which Mr. Muhammad Umar Mehkari, Chief Executive Officer (“CEO”), Mr. Irshad Ali Pitafi, Independent Director, Ms. Sofia Zakaria, Director and Ms. Saba Mehkari Farooqui appeared on behalf of the Respondents as their *Authorized Representatives*. The Authorized Representatives, *inter-alia*, submitted that:

- (i) *The board of the Company has been recomposed with only two executive directors i.e. Mr. Muhammad Umar Mahkari and Ms. Saba Mehkari Farooqui.*
- (ii) *BAC has also been recomposed and now constitutes of four members i.e. Mr. Irshad Ali Pitafi, Independent Director being chairman of the BAC, Mr. Mehmood Ali Mehkari, Non-Executive Director, Ms. Sofia Zakaria, Non-Executive Director and Ms. Uzma Mehmood Ali Mehkari, Non-Executive Director. Further, Mr. Irshad being a fellow member of Institute of Chartered Accountants of Pakistan (“ICAP”) qualifies on the criteria for financially literate prescribed in the CCG Regulations.*
- (iii) *Minutes of the BAC meeting were not being circulated and the explanations of non-compliances of provisions of the CCG Regulations were not provided due to unawareness of the requirements on the part of the Respondents.*
- (iv) *The Company was a sick unit and is now being revived, and the contraventions of regulations 8(1), 27(1), 27(2) and 27(5) of the CCG Regulations have subsequently being rectified while a proper explanation on account of unexplained non-compliances will be intimated soon. In light of the same, while assuring future compliance, lenient view in the matter is requested.*

11. Subsequent to the hearing, the Company Secretary vide letter dated April 14, 2025 submitted written reply to the SCN, *inter-alia*, stating that:

- (i) *The Board was reconstituted on February 26, 2025 and now comprises of seven (7) directors including two (2) Executive Directors;*
- (ii) *The independent director namely Mr. Irshad Pitafi who qualifies the criteria specified for being financially literate, has been appointed as chairman BAC on October 14, 2024 and accordingly BAC now comprises of three (3) members i.e. two (2) executive directors and one (1) independent director;*
- (iii) *Secretary of BAC has invited the external auditor to attend the next BAC meeting scheduled to be held before year end;*
- (iv) *Minutes of the meetings of BAC are being circulated according to the prescribed procedure; and*
- (v) *Explanation for non-compliant provisions of CCG Regulations was missed due to printing error which was subsequently rectified on PUCARS on December 13, 2024.*

12. I have gone through the relevant provisions of regulations 8(1), 27(1), (2), (5) and 36(1) of the CCG Regulations and considered the facts of the case along with the available record of the Company as well as written and verbal submissions of the Respondents. I have also perused regulation 37 of the CCG Regulations along with provisions of Sections 169 and 512(2) of the Act, which stipulates penal provisions for contravention of the afore-referred provisions of law. It is observed that restricting the number of executive directors to the maximum of one-third of the Board is vital for ensuring a balance of power and promoting effective corporate governance. Such a capping is intended to maintain the independence of the board by reducing the influence of management on strategic decision-making, allowing non-executive directors, especially independent ones, to offer unbiased oversight. Furthermore it is expected to strengthen accountability, prevents conflicts of interest, and enhances decision-making by ensuring that the board acts in the best interest of shareholders rather than solely reflecting the views of management and foster transparency and improves investor confidence. It is observed that a well-balanced board is more likely to prioritize long-term growth and sustainability, protecting the interests of all stakeholders, including minority shareholders.

13. It is also observed that the mandatory composition of BAC is crucial for strengthening financial oversight and transparency and to ensures that it operates independently from management. Such a composition of BAC is significant for improving corporate governance by ensuring robust oversight of financial reporting and audits, reducing the risk of fraud or misrepresentation, and boosting investor confidence. It is also observed that the independent director acts as a safeguard against potential conflicts of interest and his presence ensures that decisions made by BAC are impartial and in the best interest of shareholders. Further the inclusion of a financially literate member ensures that BAC has the necessary expertise to effectively evaluate financial

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statements, internal controls, and risk management processes, enhancing the integrity of the company's financial reporting.

14. It is imperative to underscore that the mandatory requirement to ensure presence of the head of internal audit and the external auditor in meetings of BAC where financial matters are discussed and the requirement for BAC to meet at least once annually with the external auditor without management's presence is essential for maintaining the integrity, independence, and effectiveness of the audit process and overall financial oversight. Such interactions are considered crucial for ensuring that financial reports are transparent, accurate, and free from undue influence. It is noted that failure of the BAC to ensure attendance of key audit personnel, and its omission to hold a separate meeting with the external auditor, significantly undermines the purpose of independent oversight. The presence of the head of internal audit allows BAC to understand internal controls, audit findings, and risk management concerns directly from the internal audit function, without interference or filtering by management. Similarly, a private meeting with the external auditor provides the BAC an unfiltered opportunity to assess the quality of financial reporting, audit challenges, or any concerns the auditor may have about the company's financial practices or management behavior.

15. The significance of proper circulation of the minutes of BAC meeting minutes is paramount to ensure transparency, accountability, and informed decision-making within the company's governance framework. Circulation of the minutes of meeting of BAC to the Board in a timely and accurate manner allows all relevant board members to stay updated on critical discussions and decisions related to financial reporting, risk management, and internal controls and also serves as a formal record for regulatory compliance and internal reference. It is noted that failure to circulate the minutes of meeting of BAC as prescribed can lead to a breakdown in communication, reduce oversight effectiveness, and potentially hide issues that require board attention, thereby undermining the integrity of the governance process. The Respondents during the hearing held on April 07, 2025 have admitted that the minutes of meeting of BAC were not circulated in the prescribed manner; thereby contravening regulation 27(5) of the CCG Regulations.

16. It is also pertinent to observe that regulation 36(1) of the CCG Regulations requires the listed companies to publish a SoC in their annual reports, detailing adherence to the CCG Regulations. The SOC must disclose any deviations from the CCG Regulations to ensure transparency. However, the Company failed to report its non-compliance with various clauses of CCG Regulations, as stated in para 6(v) & (vi) above, in its SOC for the financial year ending June 30, 2024; thereby contravening requirements of regulation 36 of the CCG Regulations. It is also pertinent to note that Para 19 of the SoC stated the non-compliances with the provisions of CCG Regulations without providing an explanation for such non-compliances; thereby clearly showing lack of ability of the Respondents to assess the factual position in an objective manner.

17. In a judgment passed by the Appellate Bench of the Commission in the matter of *Tandlianwala Sugar Mills Limited vs. Director/HoD Adjudication-I* (Appeal No. 85 of 2022), it was held that "The use of word 'mandatory' in regulation leaves no room for any ambiguity---"

18. It is important to observe that the arguments relating to the claimed subsequent compliance with the provisions of law by restructuring the board of the Company to reduce number of executive directors to two (2); recompositing of BAC by appointing an independent director as its chairman who being a chartered accountant also qualifies the criteria of being financially literate; circulation of minutes in the prescribed manner; and replacing the amended SoC with explanation for non-compliant provisions of CCG Regulations, are not tenable. It is noted that subsequent compliance of the given requirements of the CCG Regulations, although have been given due weightage, but does not exonerate the Respondents from their primary responsibility of ensuring compliance with the provisions of CCG Regulations at all times. Moreover, it is also observed that the argument of the Authorized Representatives that the Company was a sick unit and is in revival phase is not relevant in the subject case.

19. In view of the above, the aforesaid contravention with the requirements of regulations 8, 27 and 36 of the CCG Regulations at relevant point in time have been established beyond doubt and the same have been admitted by the Respondents which attract penal actions in terms of regulation 37 of the CCG Regulations read with Section 512(2) of the Act. I, therefore, in exercise of the powers conferred upon me under regulation 37 of

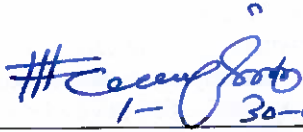
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the CCG Regulations and Sections 169 and 512(2) of the Act read with SRO 1545(I)/2019 dated December 06, 2019, hereby impose an aggregate penalty of **Rs. 165,000/- (Pak Rupees One Lacs and Sixty Five Thousand Only)** on the Respondents in the following manner:

Sr. #	Name of Respondents	Penalty (Rs.)
1.	Mr. Mahmood Ali Mehkri, Chairman	15,000
2.	Mr. Muhammad Umar Mehkari, CEO	15,000
3.	Mr. Irshad Ali Pitafi, Independent Director	15,000
4.	Ms. Uzma Mehmood Ali Mehkri, Non-Executive Director	15,000
5.	Ms. Sofia Zakaria, Non-Executive Director	15,000
6.	Ms. Sara Mehmood Mehkri, Executive Director	15,000
7.	Ms. Saba Mehkri Farooqui, Executive Director	15,000
8.	M/s Metropolitan Steel Corporation Limited	60,000
	<b>Total Amount</b>	<b>165,000</b>

20. The Respondents are further advised to ensure meticulous compliance of the regulatory framework in true letter and spirit in the future.

21. The Respondents are, hereby, directed to deposit the aforesaid amount of penalty in the designated bank account maintained in the name of the Commission with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and to furnish a receipted bank challan to the Commission forthwith. In case of failure to deposit the penalty, the proceedings under Section 485 of the Act will be initiated for recovery of the fines as arrears of land revenue pursuant to provision of Section 42B of the Securities and Exchange Commission of Pakistan Act, 1997.

  
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(Sohail Qadri)

Director/ Head of Department  
Adjudication Department-I

**Announced:**

Dated: April 30, 2025

Islamabad.