

Government of Pakistan
Securities and Exchange Commission of Pakistan

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Islamabad, the 9th April, 2020

NOTIFICATION

S. R. O. 301 (I)/2020.- Guidelines for Performance Evaluation of the Board of Directors, Chief Executive Officer and Chief Regulatory Officer.

This document serves to give basic guidelines for performance evaluation of the board of directors, chief executive officer and chief regulatory officer. Keeping in view the size, complexity and structure of the SRO, the board can formulate its performance evaluation framework in the light of these Guidelines.

Performance Evaluation of the Board of Directors

The board needs to act on a fully informed basis in the best interest of the institution and its stakeholders. It has overall responsibility to approve and oversee implementation of the company's strategic objectives. The following are some of the specific issues/questions that should be considered in performance evaluation of a board:

- (i) Is the composition of the board appropriate, having the right mix of knowledge, expertise and skills to maximize performance?
- (ii) How well the board exercises its role ensuring that the organization supports and upholds the vision and mission, core values etc.?
- (iii) Is the policy framework of the SRO developed appropriately?
- (iv) What has been the board's contribution towards developing strategies?
- (v) Is the board able to make timely strategic decisions ensuring operations are in line with strategies?
- (vi) What has been the board's contribution in ensuring robust and effective risk management?
- (vii) Has the board ensured that internal control, audit function and IT security function in an effective manner?
- (viii) Has the board taken proactive measures to ensure proper deployment of MIS, important certifications etc.?
- (ix) Has the board ensured timely and accurate disclosure on all material information?
- (x) Is the board as a whole, up-to-date with latest developments in the regulatory environment?
- (xi) Are the board procedures conducive to effective performance and flexible enough to deal with all eventualities?
- (xii) Is the board effective in adherence to the code of conduct?
- (xiii) Has the chairman played his role in ensuring adequate and constructive discourse and debate on important matters, conflict resolution, leadership qualities etc.?

- (xiv) Has the attendance of directors, quality of contribution and preparedness for agendas been adequate?

Performance Evaluation of Chief Executive Officer

The performance evaluation of CEO shall be carried out by all the directors. The following are some of the specific issues/questions that should be considered in the performance evaluation of CEO:-

- (i) Were the financial/business targets set by the board achieved?
- (ii) Does he possess leadership qualities i.e. correct anticipation of business trends, opportunities and priorities affecting the institution's prosperity and operations?
- (iii) Has he developed clear mission statement, policies, and strategic plans that harmoniously balance the needs of all the stakeholders?
- (iv) Does he ensure that company's resources and budgets are aligned with the implementation of the organization's strategic plan?
- (v) Does he establish an effective organizational structure to ensure management's focus on key functions?
- (vi) Does he timely and effectively execute strategies set by the board?
- (vii) Has he served as an effective representative while communicating with all the stakeholders?

Performance Evaluation of Chief Regulatory Officer

The performance evaluation of CRO shall be carried out by all the directors based on feedback of the regulatory affairs committee. The following are some of the specific issues/questions that should be considered in the performance evaluation of CRO:-

- (i) Were the regulatory targets set by the regulatory affairs committee achieved?
- (ii) Does he possess leadership qualities and independence to steer the regulatory functions of the organization?
- (iii) Has he developed clear mission statement, policies, and strategic plans in line with his regulatory responsibilities?
- (iv) Does he establish an effective structure of the regulatory affairs department to exercise regulatory responsibilities efficiently?
- (v) Does he timely and effectively execute strategies and plans set by the regulatory affairs committee and adheres to the applicable policies?

Approaches for Performance Evaluation

The chairman may adopt any of the following approaches for performance evaluation of board:

- (i) *In house*: In house performance evaluation can be performed by the chairman with assistance from members of the nomination committee and the company secretary.

- (ii) Independent: Independent performance evaluation could be performed by advisors, consultants or specialized institutes like Pakistan Institute of Corporate Governance, Institute of Chartered Accountants of Pakistan, Institute of Cost and Management Accountants, Pakistan Institute of Management etc. as engaged by the board. The results shall be sent to the chairman that is to be communicated internally to all board members.
- (iii) Both (In house and Independent): The board may adopt a mix of both approaches where external facilitators may provide institution specific survey forms/questionnaires which are technically prepared in light of best international standards for evaluation process. The board can either take survey forms/questionnaires from the external facilitator and undergo the whole evaluation process within the institution, or formulate and fill in the questionnaires within the institution and analysis/result can be outsourced to an external facilitator.

Techniques for Performance Evaluation

The board may adopt both quantitative and qualitative techniques while carrying out the process of performance evaluation. These may also include informal bottom-up appraisals including the management's perspective on the board's effectiveness.

Report

The chairman shall discuss the results/findings in final report with the board.

Frequency of the Performance Evaluation

The board shall annually evaluate performance of overall board, CEO and CRO whereas the same shall be undertaken (facilitated) by an external independent evaluator at least once every three years.

Action Plan

Subsequent to the performance evaluation process, the identified issues, weaknesses and challenges need to be addressed adequately through a proper action plan. The chairman and the nomination committee shall also formulate the requisite strategies and action plans to address the identified challenges/issues.

Final report containing the results/findings and strategies/plans to address the issues shall be shared with the SECP.

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