Governance rules for public sector companies approved by SECP Policy Board

ISLAMABAD, January 31: The Public Sector Companies (Corporate Governance) Rules have been approved by the SECP Policy Board. The rules are aimed at improving the governance framework of public sector companies (PSCs) in order to bring about greater transparency and plugging the huge losses of public sector enterprises, which are in the range of Rs400 billion per year.

Held on Thursday at the SECP head office, the board meeting was chaired by Mr. Wajid Rana, the federal finance secretary. The board consists of the SECP chairman, federal secretaries for finance, law and commerce, and deputy governor, State Bank.

The rules have been based on the Code of Corporate Governance issued by the SECP as well as on the recommendations contained in the Guidelines on Corporate Governance of State-Owned Enterprises issued by the Organization for Economic Cooperation and Development.

The salient features of the rules are

- The appointment of the board members and CEO will be subject to fit and proper criteria laid down by the SECP. This will include a person’s qualifications, experience and business expertise.

- The position of the chairman and CEO are proposed to be separated to achieve an appropriate balance of power, increasing accountability and improving the board’s capacity for decision making independent of management.

- The CEO will be appointed on the recommendation of the board of directors. The board will recommend three names and the government will appoint one of them.

- The annual evaluation of directors and CEO will be done as per criteria specified by the SECP and will be submitted to the government.

- The board shall have 40% of its total members as independent directors within two years of the notification of the rules, and majority of independent directors within four years.

- No person shall be elected or nominated as a director of more than five public sector companies, simultaneously, including listed companies.

- The chairman of the board shall preferably be a non-executive director.
A system of internal audit shall be established in every public sector company. In addition, audit, H.R., procurement and risk management committees will be set up.

The inefficiency of public sector enterprises is choking our economy and draining the fiscal resources, necessitating their restructuring. The measures to improve the governance of PSCs include strengthening the internal control mechanism, augmenting the disclosure and transparency requirements, and undertaking periodic performance evaluation of the board members.

Improving corporate governance of PSCs will lead to significant efficiency gains, improvement in the quality of public services, a decrease in the fiscal burden and public debt, and ultimately contribute to overall growth. However, for meaningful results, what is foremost needed is political commitment at the highest level, coupled with strong, visionary and credible leadership to drive the reform efforts.

In 2010, the federal government had constituted a cabinet committee on restructuring of public sector enterprises to improve overall corporate governance of PSEs and service delivery, and to move to a structural surplus and increased public sector savings.

Later, the government formed a task force on corporate governance of public sector enterprises to develop a clear and consistent ownership policy, provide a blueprint for necessary reforms in the public sector enterprises by examining the prospects of developing a regulatory mechanism for improving the governance of the PSEs, and enhance board effectiveness and empowerment through a range of measures.

The task force approved the regulations, and the same were notified in the official gazette to elicit public opinion and were also placed on the SECP’s website. A series of roundtables was also held at Karachi, Lahore and Islamabad to provide the relevant stakeholders an opportunity at their doorsteps to provide their feedback through active consultation. After receipt of comments from stakeholders, the draft framework was suitably amended and again placed before the task force on corporate governance of public sector enterprises for its approval.

These rules have been designed in view of the distinct governance challenges faced by the PSCs. There is an urgent need for turning around their performance, minimizing political interference in the management, ensuring proper and effective use of public assets and resources, maintaining a balance between public service delivery and profitability, and managing and developing human resources effectively. The government also needs to exercise its ownership rights actively without undue interference in the day-to-day business activities of the PSCs, and allowing their boards full operational autonomy to achieve their defined objectives.

Now the rules shall be forwarded to the Ministry of Law and Justice through the Ministry of Finance for vetting and approval as required under the law. After 90 days of their promulgation, the rules will apply to all public sector companies, which are directly or
indirectly controlled, beneficially owned or not less than 50% of the voting securities of which are held by the government.

**Tickers**

1. Public Sector Companies (Corporate Governance) Rules have been approved by the SECP Policy Board.

2. The rules will improve the governance framework of public sector companies

3. Independent non-executive directors on the boards of public sector companies will be appointed

4. The rules will minimize political interference in the management of public sector companies

5. The rules will necessitate restructuring of public sector companies

6. Improved corporate governance of public sector companies will lead to significant efficiency, improvement in the quality of public services and a decrease in the fiscal burden
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Imran Ghaznavi | Head, Media and Corporate Communications Department/Spokesperson
Securities and Exchange Commission of Pakistan
NIC Building, 63 Jinnah Avenue, Blue Area, Islamabad – 44000 Pakistan
Direct # +92 51 9206513 Fax # +92 51 9206515 Cell: +92 333-5116666
Email: imran.ghaznavi@secp.gov.pk
www.secp.gov.pk