SEC

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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Khalid A. Mirza A Tribute

Mr. Khalid A. Mirza, former Chairman, SEC

Very few individuals can claim the credit for transforming an entire organizational setup of a former government department, of revolutionizing the capital market of a country as well as laying the seeds for the integration of our markets with international markets. Mr. Khalid A Mirza, former Chairman, Securities and Exchange Commission of Pakistan (SEC), did all that in a short span of three years.

Mr. Mirza came on leave from the International Finance Corporation/World Bank Group in March 2000 to steer Pakistan's capital markets out of its doldrums and onto centre stage. On the eve of his departure, the country's stock markets were being quoted as the best performing in the world. These results were due to his visionary foresight, his missionary zeal to transform Pakistan's capital markets as well as his personal competence, commitment and courage.

While Mr. Mirza has left an indelible mark on the SEC and the capital market of the country through a slew of reforms, he will primarily be remembered for his personal attributes, his ability to lead from the front. Thank you Mr. Mirza, for making us all proud to have been part of your team.

Abdul Rehman Qureshi Appointed Chairman

Mr. Abdul Rehman Qureshi, Chairman, SEC

Mr. Abdul Rehman Qureshi, the senior most Commissioner in charge of Enforcement and Monitoring and Support Services, has been appointed as the Acting Chairman of the Securities and Exchange Commission of Pakistan (SEC). Mr. Qureshi is a lawyer by profession and has been associated with the Corporate Law Authority (CLA) since 1976. By virtue of his extensive experience in various positions with the CLA, Mr. Qureshi has been instrumental in the establishment and smooth working of the Commission.

The ADB Financial (Non-Bank) Markets and Governance Programme

The first phase of financial market reforms has been successfully implemented under the capital market development loan of the Asian Development Bank (ADB) which was completed in 2002. The SEC took a number of steps to improve the governance and risk management aspects of all the three stock exchanges, and was able to implement the Code of Corporate Governance. The observance of International Accounting Standards (IAS) was further enhanced to boost investors' confidence. In line with the evolving international practices, the concept of Non-Banking Finance Companies was instituted and is being implemented. Trading in futures contracts in commodities was initiated in July 2001. Additionally, a number of steps were taken to reposition and transform SEC in terms of human resource and automation.

Although, there have been substantial achievements during the last 2-3 years, a lot still needs to be accomplished. Market forces demand a more vigorous financial market in the country. In order to promote a vibrant and efficient financial market in Pakistan, ADB has recently approved an integrated assistance package of three loans and two political risk guarantee facilities, under the Financial (Non-Bank) Markets and Governance Programme (FMGP) for effecting the second phase of reforms in Pakistan. This second phase of reforms builds on to the earlier improvements, and is largely developmental in nature. The FMGP intends to support the development of Pakistan's non-bank financial markets through reform, capacity building and international private sector participation.

The main objectives of the FMGP are to:

1. Strengthen market soundness, stability and investor confidence through improved governance, transparency and risk management;
2. Improve availability of and access to financial instruments for savings and investment and related services;
3. Improve market efficiency and attractiveness to issuers and investors, including institutional and foreign investors.

Since the scope of the new programme loan is much wider than the previous capital market development programme loan, a separate Project Management Unit headed by the Executive Director, Chairman's Secretariat, has been established at SEC for oversight, effective coordination and implementation of various assignments.

Details of this Project are available at the SEC website.

Regulation of Private Pension Schemes and Funds

In order to provide the capital market institutional underpinning, it is imperative to develop and strengthen mutual and pension funds. In Pakistan, the Government, on March 15, assigned, in principle, the responsibility of regulation of Private Pension Schemes and Funds to the SEC. This decision of the government is part of fulfilling the remaining conditions for disbursement of the first tranche of the Financial Markets and Governance Programme Loan of ADB.

With regard to mutual funds, in order to upgrade the regulatory framework for fund management, the SEC has proposed changes in the Rules. Furthermore, in order to make substantial sums available for investment in the capital market, the SEC has proposed a defined contribution, portable, nationwide pensions system, which is under consideration of the Government.

Code of Conduct for Surveyors and Loss Adjustors

Surveyors and loss adjusters play an important role and constitute an integral part of the financial sector which includes a wide cross-section of institutions including banks, Non-Banking Financial Institutions (NBFI) and insurance companies. With a view to bringing uniformity and discipline in the working of surveyors and loss adjustors so as to serve the stakeholders in a more befitting manner, the SEC has approved a Code of Conduct which has been prepared in consultation with the Institute of Surveyors and Loss Adjustors of Pakistan (ISLAP).

This Code has two general guiding principles - Fundamental Principles and General Guidance Notes. The primary aim of this Code is to streamline the profession of Surveyors and Loss Adjusters. Salient features of the code are as follows:

- A member should behave ethically and with integrity in all professional and business relationships.
- A member shall act impartially when acting on instructions from an insurer in relation to policyholders' claim.
- All the members of ISLAP are liable to disciplinary action if they commit any act or default likely to bring discredit to the member.
- A member should, at all times, maintain a register of survey work, containing the relevant information and shall keep records of the survey reports, photographs and other important documents for a period of three years.
- Restriction on receiving and providing any hospitality to and from the employees of the client.

This Code will go a long way in improving the conduct of Insurance Surveyors and Loss Adjusters and will also bring much needed discipline in this field. The Code is available at the SEC website.

New Executive Director Securities Market Division

Mr. Najam Ali has joined the SEC as the Executive Director, Securities Market Division. Prior to his appointment as Executive Director, SEC, Mr. Ali served as Chief Executive Officer of the Central Depository Company of Pakistan Limited (CDC) for over six years and it was during his tenure that the Central Depository System and the National Clearing and Settlement System were successfully implemented.

Seminar on "Good Corporate Governance - Role of Board of Directors"

Speaking as Chief Guest at a seminar on "Code of Corporate Governance - Role of Board of Directors" organized by the Institute of Cost and Management Accountants of Pakistan in Islamabad in March, Mr. Abdul Rehman Qureshi, Chairman, SEC, said, "I personally feel that some special codes aiming at the efficient governance of companies be developed for other companies also like the companies with specialized business and the companies established for promotion of trade, commerce and other useful objects".

Mian Mumtaz Abdullah, former Chairman of Corporate Law Authority, also made an extensive presentation of various aspects of the Code relating to the roles and responsibilities of Directors.

Mian Mumtaz Abdullah (left), former Chairman of the Corporate Law Authority presenting a shield to Mr. Abdul Rehman Qureshi, Chairman, SEC at the conclusion of the seminar on "Code of Corporate Governance - Role of Board of Directors" arranged by the Institute of Cost and Management Accountants of Pakistan in Islamabad in March.

Code of Corporate Governance for Insurance Sector

A high standard of corporate structure established by registered insurers is an essential step in instilling the confidence of policyholders and encouraging more stable and long-term development of the insurance industry in Pakistan. Insurance companies with high standards of corporate governance will also help enhance Pakistan's image as a promising financial market.

To establish and enhance integrity and stability of the insurance industry through providing assistance to registered insurers for the evaluation and formulation of their internal practices and procedures, the SEC issued a Code of Corporate Governance for insurance companies. The Code has been developed along the lines of the Code of Corporate Governance already issued for listed companies operating in Pakistan with necessary changes keeping in view the diversified corporate structure of the insurance sector. It primarily aims to establish a system whereby a company is directed and controlled by its directors in accordance with the best practices to protect the interests of stakeholders including the policyholders.

The salient features of the Code include setting up of under writing, claims settlement, reinsurance, co-insurance and audit committee, internal audit and control systems, mandatory rotation of auditors after five years, restriction on auditors as well as on appointed actuaries not to hold, purchase, sell or take any position in shares of the company.

The Code is available at the SEC website.

NBFC Rules Notified

Over the past few decades, NBFIs in Pakistan have performed well and provided quality services to their customers. However, the traditional model of NBFIs, consisting of a variety of separate, compartmentalized, specialized institutions such as leasing companies, investment banks, Development Finance Institutions (DFI), etc., had led to fragmentation of the financial sector and a proliferation of institutions with inadequate capital, weak human resource base, low access to technology and high cost of operations. To ameliorate this situation, the SEC introduced the Non-Banking Finance Company (NBFC) concept that envisages a single entity - the NBFC - being able to provide a wide range of financial services through a one-window operation. The main objective of implementation of the NBFC concept is to consolidate the activities relating to non-banking financial sector under one umbrella and promote these activities by strengthening the capital base and reducing operational costs.

The regulatory transfer of all NBFIs, except DFIs, from the State Bank of Pakistan (SBP) to the SEC took place in December 2002. The Non-Banking Finance Company (Establishment and Regulation Rules), 2003 that were put up for public consultation earlier last year, have been notified by the SEC and are also available at the SEC website.

IMF Delegation Visits SEC

In March, Mr. Abbas Mirakhor, Executive Director, International Monetary Fund (IMF), Mr. Henri Ghesquiere, Senior Resident Representative of IMF in Pakistan visited the SEC where they had a detailed meeting with the Chairman Mr. Abdul Rehman Qureshi, Commissioners and Executive Directors of the Commission.

During the meeting, Mr. Haroon Sharif, Executive Director, SEC, made a comprehensive presentation giving an operational overview of the Commission as well as details of the reforms in the financial market and the corporate sector during the past three years.

Mr. Mirakhor praised efforts of the SEC towards bringing transparency and efficiency in the financial market. He also appreciated SEC's performance as an independent and effective financial regulator in Pakistan. Mr. Mirakhor stressed the need for further institutional strengthening of the SEC and showed keen interest in the capital market reforms and developmental projects focused on corporate governance and anti-money laundering.

Annual Dinner of the 21st Century Business Club

Mr. Khalid A. Mirza (second from left), former Chairman, SEC was Chief Guest at the 21st Century Business Club dinner in Karachi in February. Mr. Mirza spoke about the "Capital Market and Corporate Sector Regulatory Reforms" in Pakistan.

SEC Addresses Issue of Transfer Pricing

In view of the increasingly manipulative use of transfer pricing within the corporate sector, it has become essential to subject transactions between related parties to strict vigilance and regulation. To address the issue of transfer pricing prevalent in Pakistan's corporate sector, the SEC has amended the Fourth Schedule to the Companies Ordinance, 1984. Consequently, companies are required to disclose the accounting policy in respect of related party transactions and transfer pricing to identify that all such transactions are made at arm's length prices, determined in accordance with any of the admissible methods. The admissible methods have been determined in line with the transfer pricing guidelines of the Organization of Economic Cooperation and Development (OECD).

Consequent to these amendments, the three stock exchanges of the country, upon a directive of the SEC, have amended their respective listing regulations to require listed companies to measure transactions between related parties at arm's length price, formulate a transfer pricing policy for each related party transaction, maintain adequate records, file quarterly returns with the SEC and give necessary disclosures in the Annual Report in this respect. The listed companies are also required to present the record of related party transactions and the report on implementation of transfer pricing policy together with all relevant documents, etc. to the external auditors for the purpose of statutory audit. The auditors shall give an independent opinion on these records and report in their report to members.

The amendments in the Fourth Schedule and the directive to the stock exchanges are a result of SEC's initiative to tackle the issue of transfer pricing. In finalizing the amendments and its directives, the SEC took cognizance of international developments on the subject, which reveal that similar initiatives are being taken in other jurisdictions. The amendments made by the SEC are aimed at a fairer measurement and recognition of related party transactions and are expected to ensure that such transactions would take place at arm's length prices as opposed to the non-competitive practices in the past.

Quarterly Stock Market Indicators

	Oct — Dec 2002	Jan — March 2003
KSE 100	2701.42 on December 31	2715.72 on March 31
Market Capitalization	Rs. 595.206 billion on December 31	Rs. 588.323 billion on March 31
Average Daily Traded Value	Rs. 10.01 billion	Rs. 11.93 billion
Average Daily Turnover	242.86 million shares	244.58 million
Term Finance Certificates (TFC) Issues	3 issues	7 issues
Total Amount Offered in TFCs	Rs. 2.150 billion	Rs. 2.664 billion
Equity Issue	1 Issue	1 Issue
Initial Public Offerings (Equity)	Rs. 0.373 billion	Rs. 0.250 billion
Total Public Offering	**Rs. 2.523 billion**	**Rs. 2.914 billion**

Conference of the Company Law Division

A three-day conference of officials of the Company Law Administration Division , including the Company Registration Offices (CRO), of the SEC was held in Islamabad in January to discuss recent amendments in the legal framework and standardization of procedures for handling public complaints. The conference also discussed the developments pertaining to other laws administered by the SEC.

Addressing the participants of the conference, Mr. Khalid. A. Mirza, former Chairman, SEC showed satisfaction that company incorporation in Pakistan is now being done in 48 hours and several other services are provided the same day. "The CROs have improved significantly over the past few years, however, there is always room for improvement. I would feel satisfied with the performance of the CROs when company registration is made possible on-line and company documents are permitted to be filed electronically. The Company Law Administration Division of the SEC should be issuing advance warnings to corporates about filing of forms and due dates of compliance with the company law. For this, a computer generated automatic reminder should be sent to them", he added.

Mr. Mirza further said that he was happy to note that the CROs had changed their look and attitude towards the public and had a far friendlier atmosphere since he took over some three years back. Chairman SEC called upon the officers to bear in mind that they should transform their mind-set to that of a service oriented organization which should at all times be willing and making efforts to help and facilitate the corporate sector in making provision for discharge of corporate responsibilities.

Mr. Zafar ul Haq Hijazi, Commissioner, SEC, addressing the participants of the conference of the Company Law Administration Division in Islamabad in January.

Relaxation for Preparation of Second Quarter Accounts

Consequent to an amendment in the Companies Ordinance, 1984 through the Companies (Amendment) Ordinance, 2002, listed companies are required to prepare and transmit their first, second and third quarter accounts to the stock exchanges and members of the company within one month of the close of the respective quarter. Furthermore, in December last year, the Commission issued a circular requiring that cumulative figures for the half year presented in the second quarter accounts shall be subject to limited scope review by the statutory auditors.

Considering the practical difficulties expressed by the management and auditors of listed companies, the Commission has granted a general relaxation of further one month enabling the listed companies to circulate their second quarter accounts with limited scope review by the statutory auditors within a period of two months of the close of the second quarter.

Seminar on Corporate Governance

***From left:** Mr. Etrat Rizvi, Commissioner and Ms. Sadia Khan, Executive Director, SEC who were, respectively, Chief Guest and Keynote Speaker at the Seminar on Corporate Governance organized by the Modaraba Association of Pakistan and Leasing Association of Pakistan in Karachi in January.*

Revised Format of Annual Return

With a view to making the Annual Return form, which is to be filed by companies registered under the Companies Ordinance, 1984, simpler to fill in, the SEC has reframed the format of the Return reducing its size from 19 to six pages.

Every company registered under the Companies Ordinance, 1984 has to file an Annual Return with the SEC. The disclosure requirements for the Annual Return are contained in the Third Schedule to the Companies Ordinance, 1984. These requirements previously extended to 19 printed pages and the corporate managements and their consultants had been agitating against the length of the requirements and difficulty in preparation and submission of this Return. It had particularly been emphasized that the Annual Return was repetitive of the information most of which is provided to the SEC from time to time when the changes actually take place during a calendar year.

Simplification of the requirements and Form of the Annual Return is expected to increase the corporate sector's compliance with the statutory requirements.

Workshops on Corporate Governance

The SEC, in collaboration with ADB, organized three one-day workshops to equip the securities regulators of Pakistan with a broader understanding and procedures for enforcement of regulatory practices for corporate governance, and to present best practices and world standards of corporate governance. The workshops, which were attended by over 90 participants from the SEC and the three stock exchanges, were conducted by Mr. Richard Dvorin, a consultant with International Securities Consultancy, who is a part of the consulting team led by Mr. Mark Hanson.

The workshops were a part of ADB's Technical Assistance "Capacity Building for Capital Market Development and Corporate Governance". This series of workshops continue ADB's support towards the development of capital markets and corporate governance in Pakistan. The materials for these training workshops have been made available to the SEC and to the stock exchanges for their use in working with and training of the relevant regulated entities.

Anti-Money Laundering Unit at the SEC

AML Unit's Presentation to the Commission

On January 29th the SEC-AML Unit (AMLU) made a presentation to the Commission, elaborating on the major aims and ambitions of the AMLU. In this regard, several recommendations were made to the Commission for following international anti-money laundering regulations. Most of the recommendations were approved by the Commission and have, subsequently, become decisions of the SEC. The decisions are:

- Development of a comprehensive account opening form focusing at "knowing-your-customer"(KYC) by the stock exchanges for introduction at brokers' level.
- Designation of compliance officers whose duty would be not only to ensure compliance of the NBFCs to regulations and laws of the Commission and SROs but also of anti-money laundering procedure.
- Payment through cheque or negotiable banking instrument for money transactions above Rs.50,000/- relating to NBFCs, Modarabas and insurance companies, to be effective from July 1, 2003.
- No physical settlement of shares, which requirement shall be provided legal cover through rules/regulations of all the stock exchanges latest by August 31, 2003.

Training on Anti Money Laundering

A one-day training course on anti money laundering was organized by the National Institute of Banking and Finance (NIBAF). Mr. Bilal Rasul, Ms. Maryam Tanwir and Ms. Jahanara Sajjad represented SEC at the training. The training highlighted the international concern on the need for AML legislation and the standards/best practices that need to be adopted in designing and implementing an anti-money laundering framework.

***First row (standing):** Mr. Bilal Rasul (second from left), Project Manager; **Front row (sitting):** Ms. Jahanara Sajjad (second from left) and Ms. Maryam Tanwir (third from left) at the training on anti money laundering organized by the National Institute of Banking and Finance.*

Letter of Appreciation Received

The AMLU, as part of its networking endeavours, shares its progress and seeks guidance for future course of action from international institutions that adhere to best practice standards. In this regard Mr. Joseph M. Pernia (Sector Director, Finance and Private Sector Development, World Bank) and Mr. Werner Liepach (Financial Capital Market Specialist, ADB) separately wrote to Mr. Haroon Sharif and said:

"The SEC decisions relating to customer identification and due diligence, cash transaction reporting and compliance and disclosure requirements, and the targets it has set for itself are commendable and will contribute to a strengthened AML regulatory framework. Indeed once fully implemented, Pakistan will stand in good stead with current international standards and practices." (Joseph Pernia)

"This is excellent news and we congratulate you and SEC on the initiative and bold steps taken." (Werner Liepach)

Meeting with the State Bank of Pakistan and National Accountability Bureau

Mr. Bilal Rasul, Project Manager, AMLU coordinated a meeting between SEC, State Bank of Pakistan (SBP) and National Accountability Bureau (NAB), where the Financial Action Task Force (FATF) questionnaire was discussed in explicit detail. This forms part of the networking and liaison activities of AMLU.

SEC-AML on the Web

The SEC website now hosts the SEC-AML web page which is currently in its basic stage and offers a valuable information base. The website can be accessed through:**www.secp.gov.pk/dp/AML.htm.**

Presentations to European Union Delegates

Mr. Haroon Sharif, Executive Director, SEC made a presentation to a delegation of the European Union (EU) comprising Mr. Pedro Martinez, Head of EU Pakistan, Councilors and First Secretaries of Germany, Portugal, Italy and Spain. The presentation elaborated on the various activities of the Commission particularly the AMLU and its initiatives.

Later during the quarter, another EU delegation comprising Mr. Heino Marius, Directorate General External Relations, EU, Brussels, Mr. Anonio Jacavacci, Financial Expert, EU, Italy and Mr. Pedro Martinez, Head of the Delegation of EU in Pakistan visited the SEC to hold a dialogue to ensure the implementation of UN1373.

Future Activities

- Implementation of the recent decisions of the Commission on anti money laundering regulations;
- Publication of Brief Series and electronic newsletter;
- International conference to be organized by the AMLU;
- Working papers to be prepared and presented in international conferences and journals; and
- Provision of training to AMLU's staff members.

SEC-UNDP Project on Corporate Governance

The Project on Corporate Governance has been initiated pursuant to a Memorandum of Understanding signed between the United Nations Development Programme, Economic Affairs Division and the SEC in August 2002. Over a period of few months, the Project has accomplished major achievements that have been targeted at improving the standard of corporate governance in Pakistan.

Workshops on Responsibilities of Directors and Management

In continuation of the series of workshops started in December 2002 in Islamabad, two more workshops were organized in Karachi and Lahore on March 17 and 19, 2003, respectively, in collaboration with a firm of corporate lawyers, Az Zaman Advocates and Legal Consultants. These workshops, which focused on "Duties and Responsibilities of Directors and Senior Management of Listed Companies", were well attended. Notable personalities from corporate sector presented their viewpoints to the participants. Also, various tools, including a local case study, were used to convey to participants the significance of good corporate governance practices in improving corporate performance and sustained growth.

***From left:** Mr. Haroon Sharif, Project Director, and Ms. Jaweria Ather, Project Manager sharing their views with the participants of the workshops.*

The workshop in Karachi was chaired by Mr. M. Salim, Chairman of Pakistan State Oil while the workshop in Lahore was chaired by Mr. Abdul Rehman Qureshi, Chairman, SEC.

At the workshop in Karachi, Mr. Mohammad Shoaib, Chief Executive of Al-Meezan Mutual Fund Limited highlighted the role and responsibilities of directors while Ms. Nausheen Ahmad, Company Secretary, ICI Pakistan Limited shared her views on transparency in board decision making. Post-Enron developments, including enactment of Sarbanes-Oxley Act in the USA, were also discussed. Ms. Sadia Khan, Executive Director, SEC presented the regulatory perspective on corporate governance. Using cases of companies investigated by the Specialized Companies Division of the SEC, Ms. Khan highlighted prevalence of poor governance practices as the major factor behind corporate failures. A foreign speaker, Mr. Mark Hanson, Consultant, International Securities Consultancy was also invited to speak at the workshop. Mr. Hanson outlined the international perspective on corporate governance and discussed the need for improving corporate governance practices in Pakistan to attract foreign investors.

At the workshop in Lahore, besides Ms. Sadia Khan and Mr. Mark Hanson, Dr. Faisal Bari, Associate Professor at the Lahore University of Management Sciences and Mr. Samir Ahmed, Managing Director, Lahore Stock Exchange were invited as guest speakers. Mr. Bari's presentation was

Mr. Abdul Rehman Qurehsi, Chairman, SEC presenting a certificate to a participant of the workshop in Lahore.

focused on coping with agency issues through corporate governance. While discussing three corporate governance structures, Mr. Bari highlighted the need for an integrated system of corporate governance for raising external finance. Mr. Samir Ahmed emphasized on the role of board of directors in promoting good corporate governance and discussed certain important provisions of the Code of Corporate Governance (the Code) and the Companies Ordinance, 1984 in this regard.

Considering the positive feedback received from participants and eagerness of others to attend, the Project will organize more workshops in future to promote awareness about statutory and fiduciary duties of directors and responsibilities of senior managers for improving corporate governance practices.

***From left:** Mr. M. Salim, Chairman, Pakistan State Oil, Ms. Sadia Khan, Executive Director, SEC, Ms. Nausheen Ahmad, Company Secretary, ICI Pakistan Limited and Mr. Mohammad Shoaib, Chief Executive, Al-Meezan Mutual Fund addressing participants of the Karachi workshop.*

***From left:** Mr. Khaliq uz Zaman Khan, Partner at Az Zaman, Mr. Samir Ahmed, Managing Director, Lahore Stock Exchange, Dr. Faisal Bari, Associate Professor, Lahore University of Management Sciences and Mr. Mark Hanson, Consultant, International Securities Consultancy addressing the participants of the Lahore workshop.*

As an integral part of the Project, a Corporate Governance Cell has been established within the SEC to undertake research and awareness exercises focused on good corporate governance practices. The Cell comprises Mr. Shahnawaz Mahmood as the Research Officer and Ms. Aisha Khan as the External Communications Officer, who work under the direct supervision of Ms. Jaweria Ather, Project Manager and Mr. Haroon Sharif, National Component Director.

The Fifth Asian Roundtable on Corporate Governance

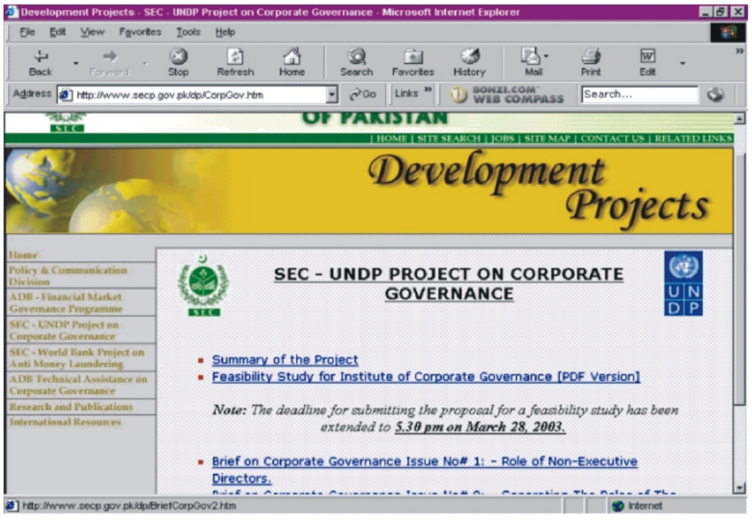
Ms. Jaweria Ather, Project Manager and a Director within the SEC, represented the SEC in the Fifth Asian Roundtable on Corporate Governance in March 2003 in Kuala Lumpur, Malaysia. The Roundtable was organized by the Organization for Economic Cooperation and Development (OECD) and the World Bank Group, in partnership with the Government of Japan. While serving as a regional forum for structured policy dialogue on corporate governance, the Fifth Roundtable focused on discussing a White Paper that has been developed pursuant to the Roundtable held in 2000 in Hong Kong. The White Paper identifies common policy objectives and lays down recommendations for improving corporate governance in Asia. Based on the feedback received at the Fifth Roundtable, the White Paper will be finalized and distributed to key national policymakers, securities regulators and stock exchanges, standards-setting bodies and relevant private sector institutions in the Asian region.

Electronic Resource Centre

In order to raise awareness on corporate governance and the research being conducted across the globe, the Corporate Governance Cell has launched an Electronic Resource Center. This Resource Center contains notable research papers and links to web sites of various academic and policy-making institutes on corporate governance. Initially, access to this Center is available only within the SEC. However, in future, it is planned to create an electronic library on the SEC website for reference by public at large.

Project Website

An exclusive web page for the Project has been developed and included on the SEC website. The web page can be accessed through **www.secp.gov.pk/dp/CorpGov.htm**. This web page contains essential details about the Project, coming events, recent publications as well as information pertaining to corporate governance.



Role of Institutional Shareholders in Promotion of Corporate Governance in Pakistan

A working paper series has been established to conduct extensive research on various aspects of corporate governance and generate feedback for policy orientation. In this regard, the first working paper on "Role of Institutional Shareholders in Promotion of Corporate Governance in Pakistan" has been developed. The paper examines the ownership pattern of state owned and privately owned financial institutions in listed companies and explores the role of institutional shareholders in promoting good governance practices in the corporate sector, while considering the requirements of the Code and other relevant laws. This paper will soon be available on the SEC website in order to initiate a debate on the issue.

Brief Series on Corporate Governance

A monthly brief series was initiated in order to further the understanding on corporate governance issues. Two issues have been developed during this quarter. While the first discusses the role of non-executive directors in maintaining accountability within corporations, the second focuses on separating the role of Chairman and CEO, and describes the agency problems that can evolve from a unitary leadership structure.

Networking

For exchange of ideas and networking with international experts and corporate leaders, an electronic newsletter has been launched. The newsletter focuses on the efforts made by the SEC in encouraging compliance with good corporate governance practices in Pakistan under the umbrella of the Project on Corporate Governance. A synopsis of performance of capital market and non-bank financial sector of Pakistan over the past year has also been included in the electronic newsletter. It is expected that this publication will be instrumental in raising awareness about recent institutional and developmental efforts in Pakistan and will be particularly useful for attracting foreign investors.

Future Activities

For the coming quarter, the following activities have been planned under the Project:

- Feasibility study for establishing an Institute of Corporate Governance in Pakistan;
- Policy-oriented research on various aspects of corporate governance;
- Capacity building of the SEC;
- Study to assess the impact of implementation of the Code on the corporate sector;
- Research study to determine overlap between the Code and other corporate laws in Pakistan and to recommend suitable amendments;
- Networking with other emerging markets; and
- Seminars and workshops to highlight significance of corporate governance.

Separating the Roles of the Chairman and the Chief Executive

Brief Series on Corporate Governance Issue II March 2003

A widely debated corporate governance issue is whether the two most important positions in a company, the Chairman and the Chief Executive Officer (CEO), should be held by two different individuals (a dual leadership structure which may also be referred to as duality) or one person may be assigned both portfolios (a unitary leadership structure).

The CEO is a full-time employee of the company and has the overall responsibility for the management of the company's affairs, its performance as well as implementation of the corporate strategy. While the CEO discharges these responsibilities subject to the powers given by the board of directors, the Chairman heads the board and is, therefore, responsible for ensuring that the statutory and fiduciary duties of directors are properly carried out and the board, as a whole, functions effectively. The Chairman is also expected to monitor the performance of directors as well as the CEO.

The dual leadership structure has emerged as a good corporate governance mechanism to dilute the unfettered power that comes from combining the two offices of the Chairman and the CEO. It is also argued that keeping the two positions distinct will better safeguard shareholders' interests since the Chairman will keep an independent "check" on the CEO and maintain an oversight function.

Most of the opposition to this structural change is coming from CEOs who favour unitary leadership structure on the premise that it promotes communication and information flow between management and the board and, thus, results in better decision-making. It is also argued that the CEO has valuable information about the business and affairs of the company that can be better utilized in his capacity as the Chairman. Separating the two positions may result in conflicts and finger pointing. Moreover, choosing the 'right' person with in-depth knowledge of the company's business and industry can be a difficult and costly task.

It is also argued that unitary leadership structure may result in a number of agency problems. Unitary leadership may hamper effective monitoring and disciplining of the management. Thus, there is a possibility for senior managers to engage in opportunistic behavior, which means that the interests of shareholders will not be properly safeguarded. Executive compensation is another area where the CEO may be able to yield undue influence.

When independent from management, the Chairman can play a pivotal role in giving directors (particularly non-executive directors) a strong voice in setting agendas of board meetings, deciding on executive compensation and encouraging meaningful discussions in board meetings. The Chairman is also likely to take measures to require circulation of relevant information precisely, accurately and timely to non-executive directors for participating in board meetings. Thus, the board is likely to discharge its statutory and fiduciary responsibilities in a diligent and transformed manner while maintaining effective management oversight.

It is generally accepted that in order for a board to effectively perform its functions, separating the positions of CEO and Chairman appears to be imperative. In line with this principle, the Code of Corporate Governance requires that the Chairmen of listed companies shall preferably be elected from among the non-executive directors. Further, the board should clearly define the respective roles and responsibilities of the Chairman and the CEO, whether or not these offices are held by separate individuals. The Code also gives a detailed description of responsibilities, powers and functions of the board of directors.

The Brief Series is a Publication of the SEC-UNDP Project on Corporate Governance
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