



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Strategy, Development and External Relations Department

Press Release

Launch of Code of Corporate Governance, 2012

KARACHI, April 10: The Federal Minister for Finance launched the Code of Corporate Governance, 2012 in a formal ceremony organized by the Securities and Exchange Commission of Pakistan (SECP), in Karachi today. The launch ceremony was held in collaboration with the Center for International Private Enterprise (CIPE), who has been supportive of SECP's initiative throughout the process of revising the Code.

The launch ceremony was attended by more than one hundred participants from various segments of corporate sector including prominent market associations, corporates, capital market institutions and commercial and investment banks, non-bank finance companies, lawyers, regulators, auditors, institutions and media.

The Code sets a minimum benchmark in terms of governance standards, brings consistency in the corporate practices and promotes transparency through enhanced disclosure requirements. The Code will result in availability of enhanced information to markets participants and hence will provide better protection of the rights of all investors, particularly minority shareholders.

Governance standards are dynamic and changing with the development of constantly evolving corporate sector and financial markets. This calls for a constant review of governance framework to keep pace with globally set benchmarks. In an endeavor to align our governance regime with enhanced requirements of present times and global best practices, the SECP mandated the Institute of Corporate Governance to initiate work on review of the Code.

The SECP, while finalizing the Code, conducted a thorough consultative process which included holding of three roundtables, a number of bilateral meetings with stakeholders, written and verbal comments and suggestions received from a wide range of stakeholders. While finalizing the Code, due consideration was given to all the suggestions received, keeping in the view the global developments in corporate governance and the overall objective of raising the standards of corporate governance in the country.

A comparison of new and previous code is given below:

1. The Code, 2012 requires at least one independent director while preference is for 1/3rd of the total members of the board to be independent directors.
2. Criteria for assessment of independence have been substantially expanded.
3. Maximum number of Executive Directors has been decreased from 75% to 1/3rd of elected directors including CEO.
4. Number of directorships has been decreased from 10 to 7 that a director can hold at the same time.
5. Requirement of board evaluation has been introduced.

6. Office of the Chairman and CEO has been separated. The Chairman shall now be elected from amongst the non-executive directors of a listed company.
7. It will now be mandatory for directors of listed companies to attain certification under any director training program offered by any institution (local or foreign), which meets the criteria specified by the SECP. The criteria are available at the websites of the stock exchanges and the SECP.
8. The appointment, remuneration and terms and conditions of employment of the Chief Financial Officers (CFO), Company Secretary (CS) and the Head of Internal Audit (IA) of listed companies shall be determined by the Board rather than CEO. The removal will also be by the Board for CS and CFO.
9. Qualification introduced for Head of IA. The removal of Head of IA is with the approval of the Board only upon recommendation of the Chairman of the Audit Committee.
10. A formal and transparent procedure to be followed regarding remuneration of Directors and disclosure of aggregate remuneration in the annual report.
11. It is now mandatory for the Chairman of the audit committee to be an independent director, who shall not be the chairman of the board. Audit Committee shall comprise of non-executive directors.
12. The secretary of Audit Committee shall either be the Company Secretary or Head of Internal Audit. However, the CFO shall not be appointed as the secretary to the Audit Committee.
13. Human Resources and Remuneration Committees have been introduced.
14. The internal audit function may be outsourced by a listed company to a professional services firm or be performed by the internal audit staff of the holding company.

The Code has been revised taking into account the lessons learnt from the practical issues and considerations relevant to the listed companies and to ensure that it reflects changing governance concerns, practices and economic circumstances and international best practices.

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