

Press Release

SECP launches consultation process on Code of Corporate Governance

ISLAMABAD: October 6: The Securities and Exchange Commission of Pakistan on Wednesday launched a consultation process to reform the 2002 Code of Corporate Governance. 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.

The SECP had tasked the Pakistan Institute of Corporate Governance (PICG), with revising the Code. After two years of detailed deliberations, the PICG Task Force finalized its recommendations. After its preliminary review, the SECP has released the revised draft Code for consultation with all the stakeholders.

The main proposals include: (1) to ensure that the board is well balanced and challenging, new principles are put forward on the leadership of the chairman, the roles, skills and independence of the non-executive directors and their level of time commitment, (2) to provide leadership to the board whilst serving as a link between the board and the CEO, the revised Code proposes the separation of the offices of the chairman and CEO with the chairman being a non-executive director of the listed company, (3) to create a balance of executive and non-executive directors including independent directors on the board, the revised Code proposes increased representation of the independent directors on the board, (4) to rationalize the increased time commitment from the directors for the proper functioning of the board, it has been proposed to limit the number of directorships that an individual can hold in the listed companies to five, (5) to enhance the board's performance and awareness of its strengths and weaknesses, board evaluation reviews are proposed that will improve accountability, (6) to fulfill the mandatory requirements of attending orientation courses for directors, the scope of institutions offering the courses has been proposed to be expanded to include such other organization/institutions offering directors' education program as may be approved by the SECP in this respect, beside the PICG and (7) proposals have also been made for a number of changes to the board committees and their composition. It has been proposed that the Audit Committee ought to have a majority of independent directors and that its chairman should be from among the independent directors.

While launching the consultation process, Mr Salman Shaikh, the SECP Chairman, said that the principal lesson of the evolving governance regime in Pakistan is that those on boards must think deeply about their individual and collective roles and responsibilities. "The Code is made up of strong principles that require careful thought and application to the circumstances of each company. The Code demands that boards critically assess their performance and openly explain themselves to shareholders. The proposed changes to the Code are in our view sensible improvements that are based on international best practices and the experience of last few years in implementation of the Code. The changes proposed would indeed benefit governance in all major businesses."

The draft of revised Code has been placed on the SECP website: www.secp.gov.pk to seek comments from all the stakeholders by November 5. The comments should be sent either to codereview@secp.gov.pk or the Director, International Affairs, Communication and Coordination Department, Securities and Exchange Commission of Pakistan.