



PRESS RELEASE

SECP sets up task force for better protection of minority shareholders

ISLAMABAD, January 28: The Securities and Exchange Commission of Pakistan (SECP) has established a task force to identify weaknesses and gaps in the current protection mechanism for the shareholders of the companies and suggest ways and means to overcome these through shareholder activism.

The decision has come in the light of the prevalent international practices. In Malaysia, Minority Shareholder Watchdog Group (MSWG) or Badan Pengawas Pemegang Saham Minoriti Berhad, was set up in 2000 as a government initiative to be part of a broader capital market framework to bring about awareness and help protect the interests of minority shareholders through shareholder activism.

The MSWG is a professional body licensed under the 2007 Capital Markets and Services Act. It is a self-governing and non-profit body, funded predominantly by the Capital Market Development. It is an important channel for market discipline, encouraging good governance among public listed companies with the objective of raising shareholder value overtime. In the UK, there is an organization called the International Shareholder Services (ISS). It is a leading provider of corporate governance solutions to the global financial community. Its services include objective governance research and analysis, end-to-end proxy voting and distribution solutions.

The task force consists of representatives of the SECP, three stock exchanges, and the Institute of Chartered Accountants of Pakistan, principally representing minority shareholders, institutional investors, nominees of professional accounting bodies and other stakeholders.

It will consider establishing a permanent platform for dialogue and cooperation on minority shareholder issues. This will offer a unique opportunity to diverse stakeholders, including minority shareholders, representatives of different companies, experts on minority shareholder issues, representative of governmental organizations, to come together in a spirit of cooperation and constructive endeavour to address some of the key issues that challenge minority shareholders.

The forum will act as grievance handling and dispute resolution platform for minority shareholders and create awareness among minority shareholders regarding their rights. Moreover, it will identify and analyze best practices, challenges, opportunities and initiatives for the further development.

The SECP envisages that all shareholders should have the opportunity to obtain effective redress for violation of their rights. The 1984 Companies Ordinance also strives to protect the

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investors and the statutory protection includes directors' fiduciary duties, one share one vote rule, shareholder rights at annual general meeting, shareholder approval for transactions with the associated companies. In this respect, the SECP has lately taken the several measures for protection of the minority shareholders' interests. For example:

1. Revamped the Code of Corporate Governance with special emphasis on independent directors.
2. Made it mandatory for all listed companies to maintain functional websites. Website provides timely information that minority shareholders may require for contesting election, e.g., list of members.
3. Placed restrictions on holding of board meetings abroad to restrict unnecessary expenditure.
4. Cost accounting record orders are being issued.
5. Ensured robust disclosures in the financial statement of listed companies in accordance with the International Financial Reporting Standards.
6. Introduced regulations governing investment in associated companies
7. Started conducting fast track examination of statement of material facts annexed with the notices of the meeting for passing of special resolutions

A great deal more needs to be done to watch the interest of the minority shareholder. It is common knowledge that the shareholders who are in a minority are prone to access and transgression owing to their small numbers and being disjointed and disorganized. Therefore, it is important to have a platform for dialogue and cooperation on minority shareholder issues. The task force shall give a detailed report on pros and cons of setting up a platform for the minority shareholders along with mechanism of creation, set-up, charter, scope, staffing and funding sources of such a platform.

The task force is headed by a minority shareholder, who has a vast experience of working as an independent director representing institutional investors/minority shareholders on the board of directors of various listed companies.

The suggestions of the task force will help in disciplining the dominant shareholders and protecting the minority shareholders. The suggestion will address the governance problem and suggest means to solve them.

Tickers:

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