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Listed Companies Directed to Enforce Code of Corporate Governance.

The Securities and Exchange Commission of Pakistan (SEC) has issued a directive to the three stock exchanges to ensure that listed companies comply with the Code of Corporate Governance. In this regard, the stock exchanges have been directed to appropriately insert the clauses of the Code in their respective listing regulations within the next 30 days. This is the first major action that the Commission has taken as regards the enforcement of the Code. The Code has been finalized after extensive consultations with stakeholders and a series of seminars held in Karachi, Lahore and Islamabad to elicit public opinion. It incorporates principles of sound corporate practices from around the world and tailors them to the particular needs of Pakistan.

Salient features of the Code, which is to be included in the relevant listing regulations of stock exchanges throughout the country are:

- All listed companies shall encourage effective representation of independent non-executive directors, including those representing minority interests, on their Boards of Directors.
- No listed company shall have as a director, a person who is serving as a director of ten other listed companies.
- Every listed company shall ensure that a 'Statement of Ethics and Business Practices' is prepared and circulated annually by its Board of Directors to establish a standard of conduct for directors and employees; and that the Board of Directors adopt a vision/ mission statement and overall corporate strategy for the company and also formulate significant policies, having regard to the level of materiality, as may be determined by it.
- The Chairman of a listed company shall preferably be elected from among the non-executive directors of the company. The Board of Directors shall clearly define the respective roles and responsibilities of the Chairman and Chief Executive, whether or not these offices are held by separate individuals or the same individual.
- The Chairman of a listed company shall ensure that minutes of meetings of the Board of Directors are appropriately recorded. The minutes of meetings shall be circulated to directors and officers entitled to attend Board meetings not later than 30 days thereof, unless a shorter period is provided in the company's Articles of Association.
The appointment, remuneration and terms and conditions of employment of the Chief Financial Officer (CFO), the Company Secretary and the head of internal audit of listed companies shall be determined by the CEO with the approval of the Board of Directors.
- The quarterly unaudited financial statements of listed companies shall be published and circulated along with directors' review on the affairs of the company for the quarter.
- All listed companies shall ensure that the annual audited financial statements are circulated not later than four months from the close of the financial year.
- Every listed company shall immediately disseminate to the Securities and Exchange Commission of Pakistan, the stock exchange on which its shares are listed and its shareholders all material information relating to the business and other affairs of the company that will affect the market price of its shares.
- Where any director, CEO or executive of a listed company or their spouses sell, buy or take any position, whether directly or indirectly, in shares of the company of which he is a director, CEO or executive, as the case may be, he shall immediately notify in writing the Company Secretary of his intentions and deliver a written record of the price, number of shares and nature of transaction to the Company Secretary within four days of effecting the transaction.
- All listed companies shall ensure that their external auditors or any partner in the firm of external auditors and his spouse and minor children do not at any time hold, purchase, sell or take any position in shares of the company or any of its associated companies or undertakings.
- Every company which is listed or proposed to be listed shall, at the time of issue of share capital, offer not less than 20% of the issued capital to the general public, unless the limit is relaxed by the stock exchange, and shall ensure that the issue is underwritten.

- The Board of Directors of every listed company shall establish an Audit Committee, which shall comprise not less than three members, including the chairman. Majority of the members of the Committee shall be from among the non-executive directors of the company and the chairman of the Audit Committee shall preferably be a non-executive director. The names of members of the Audit Committee shall be disclosed in each annual report of the company.
- The Audit Committee shall, among other things, be responsible for recommending to the Board of Directors the appointment of external auditors by the company's shareholders and shall consider any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the company in addition to audit of its financial statements.
- There shall be an internal audit function in every listed company. The head of internal audit shall have access to the chair of the Audit Committee.
- All listed companies shall ensure that internal audit reports are provided for the review of external auditors. The auditors shall discuss any major findings in relation to the reports with the Audit Committee, which shall report matters of significance to the Board of Directors.
- No listed company shall appoint a person as the CEO, the CFO, an internal auditor or a director of the company who was a partner of the firm of its external auditors (or an employee involved in the audit of the company) at any time during the two years preceding such appointment or is a close relative, i.e. spouse, parents, dependents and non-dependent children, of such partner (or employee).
- All listed companies shall publish and circulate a statement along with their annual reports to set out the status of their compliance with the best practices of corporate governance set out above.
- All listed companies shall ensure that the statement of compliance with the best practices of corporate governance is reviewed by auditors, where such compliance can be objectively verified, before publication by companies.

Protection of investors is the primary concern of the SEC, especially where money from the public at large is at stake. The Code has therefore been enforced on listed companies, banking companies, Development Finance Institutions (DFIs), Non-bank Financial Institutions, insurance companies, mutual funds, unit trusts, and companies/corporations held or controlled by the government.