

PRESS RELEASE

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Finance Minister applauds global recognition of Pakistan's enhanced compliance with International Corporate Governance Standards

ISLAMABAD –March 11, 2019: The Finance Minister Mr. Asad Omer applauds the World Bank recognition of Pakistan enhanced implementation of corporate governance principles on the launch event of Pakistan Report on Observance of Standards and Codes (ROSC) on Corporate Governance.

The Report on the Observance of Standards and Codes (ROSC) is a prominent component of global efforts to strengthen the international financial architecture and aims at promoting greater financial stability, both domestically and internationally, through the development, dissemination, adoption, and implementation of international standards and codes. The ROSC corporate governance initiative is administered by the World Bank that assesses the degree to which a country observes the G20/OECD Principles of Corporate Governance (OECD Principles)-the international reference point for good corporate governance; and develop a series of recommendations to reduce or close identified gaps.

Pakistan ROSC on Corporate Governance assesses Pakistan's corporate governance policy framework. It highlights recent improvements in corporate governance regulation, makes policy recommendations, and provides investors with a benchmark against which to measure corporate governance in Pakistan. The report focuses on the governance of large and listed companies, but includes a special section on the governance of public sector companies.

It highlights that corporate governance framework for listed companies has improved in recent years as the government has enhanced the legal and policy framework, and key institutions have grown in sophistication and maturity. Much more can be done to address corporate governance in Public Sector Companies.

ROSC assessed OECD 20 Principles fully implemented, 33 broadly implemented, 16 principles partially implemented, and three not applicable. A comparison with the 2005 Corporate Governance ROSC shows the level of improvement in the corporate governance framework; in 2005 out of a total of 32 applicable principles, only 4 were fully implemented, 17 were broadly implemented, 10 were partially implemented and 1 was reported as not implemented. The assessment has noted considerable improvement in compliance from 66% in 2005 to 77% in 2018 and has assessed Pakistan as "broadly implemented" against the OECD Principles of Corporate Governance.

Mr. Omer said, "The outcomes of the assessment will contribute to the Government reform agenda to improve the investment climate, the attractiveness of the capital market, and public sector company (PSC) reforms."

ROSC CG has assessed compliance in five areas including; the commitment of the public and private sectors to reform; Shareholder rights; Disclosure and transparency; Boards of directors and Public sector companies.

It has noted that the government took many important steps to improve the regulation of corporate governance reform in Pakistan, including the updates to the Companies Act, the issuance of the Listed Companies (Code of Corporate Governance) Regulations (“LCR”) and updates to the Public Sector Companies (Corporate Governance) Rules 2013. The private sector has also been a strong supporter of improved governance and has supported many initiatives. Many key institutions are in place, including the Pakistan Institute of Corporate Governance. LCR issued by the SECP in 2017 set detailed corporate governance requirements. Listed companies are required to include statements of compliance with the LCR in their annual reports. The LCR has had great impact on the adoption of good corporate governance by companies and shall facilitate implementation of structured legislative reforms.

Basic shareholder rights are protected in Pakistan and were improved by the enactment of the Companies Act 2017. Similarly, fiduciary duties of board of directors were codified in the new Companies Act and are one of its most important reforms. However, the fact that many boards are dominated by the controlling family / parent / Ministry makes it a challenge for board members to be truly accountable to all shareholders. Most elements of international good practice w.r.t responsibilities of the board are addressed through LCR.

The ROSC also examines the governance challenges in a key set of public interest entities – Pakistan’s Public Sector Companies (PSCs). The 169 PSCs in the government’s portfolio represent a sizable part of Pakistan’s economy. The Public Sector Companies (Corporate Governance) Rules 2013 are a recent addition to the legal and regulatory framework and represent an important effort by the Government to improve the governance of the PSCs. The Rules and their enforcement by SECP have begun to put positive gravity on the PSCs which appear to be moving towards better overall governance practices.

SECP Chairman Mr. Farrukh Sabzwari expressed on achieving this important milestone, “Pakistan’s regulatory framework has undergone significant improvements in the structure and practice of corporate governance. This international recognition of Pakistan’s compliance with global standards underpins our resolve to establish good governance standards and bring transparency in the capital markets. Compliance with the corporate governance Principles is significant to safeguard the integrity and credibility of financial system, strengthen legal and regulatory framework and develop capital markets as a preferred investment choice for both local and foreign investors. The SECP remains committed to developing and implementing reform initiatives consistent with global Principles and agrees to give due consideration to the ROSC CG Recommendations regarding effective implementation. The SECP will continue with its proactive approach in gatekeeping and encouraging timely information disclosures to ensure that listed companies comply with statutory disclosure requirements and wrongdoers are punished”.