AMENDMENTS IN THE LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATIONS, 2017

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INTRODUCTION

The Securities and Exchange Commission of Pakistan (SECP) has notified amendments in Listed Companies (Code of Corporate Governance) Regulations 2017 through SRO 1475(I) 2018 dated December 5, 2018. These are follows:

1. BOARD OF DIRECTORS

A. Responsibilities of Board of Directors and its members

Regulation 10 has been amended to broaden the responsibilities of the Board and its members, as summarized below.

i) Adoption of corporate governance practices and monitoring

The Board has been explicitly made responsible for adoption of corporate governance practices by the company and monitoring effectiveness of such practices and the members of board shall ensure to apply high ethical standards in performing their responsibilities. Sub-regulation 10(1)(A) has been inserted to emphasize upon. Sub-regulation 10(3)(i) has been amended accordingly.

ii) Code of Ethics to promote ethical culture and prevent conflicts

The Board is required to ensure that along with Code of Ethics, a Code of Conduct is also put in place.

The Board is also responsible to have policy, systems and control in place to ensure company vide prevalence of ethical practices.

The aforesaid amendments introduced by amending sub-regulations 10(3)(ii) and 10(4)(e) and substituting 10(3)(iii).

iii) Aligning of certain matter with long term interest of the company and its shareholders

A new clause (va) inserted in sub-regulation 10(3) directing the Board to put in place a formal mechanism for selecting, compensating, monitoring and, when necessary, replacing senior executives and overseeing that succession planning and the remuneration of key executives and board members are aligned with the long term interests of the company and its shareholders.

B. Exemption from Training Program

The criteria for exemption has been expanded. Previously only a director holding a minimum of 14 years of education and 15 years on board of a listed company was exempt. Now the following two types of individuals have been added:-

i) An individual having at least 25 years of post-qualification experience in specified areas and who is a member of recognized body of professional accountants. The qualification of such body should be recognized by HEC as equivalent to post graduation degree; or

ii) An individual having at least 30 years of experience in specified areas, having post graduate degree in such areas from a recognized university in Pakistan or equivalent.

C. Committees

i) Audit Committee

Audit Committee is required to have at least one “financial literate” member, which now includes a person:

a) who has at least 10 years of experience as audit committee member or

b) who has at least 20 years of senior management experience in overseeing of financial and/or audit related matters.

ii) Human Resource and Remuneration Committee

TOR of HR&R Committee has been amended to include the following:

a) while recommending to the board a policy framework for determining remuneration of directors and senior management it should be emphasized upon that performance of the company and evaluation of board and management (as applicable) should be given due consideration;

b) it has been made explicit now that annual performance of the individual board member shall also be evaluated together with evaluating the board as a whole and its committees.;

c) the committee shall also recommend to the board on succession planning of chief operating officer, chief financial officer, company secretary and head of internal audit;

D. Directors' Remuneration

i) Policy on Remuneration

The requirement of significant policy on "permissible fee for non-executive directors including independent directors" has been substituted with "remuneration policy of Non-Executive including Independent directors", regulation 10(4)(c) has been amended accordingly.

ii) Determination of remuneration

In regards to determination of levels of remuneration of directors prerequisite of "giving due consideration to performance evaluation (as applicable)" has been added in regulation 18(1).

iii) Disclosure in annual report

It is a mandatory requirement under regulation 38(2) that the company's Annual Report shall contain details of aggregate amount of remuneration separately of executive and non-executive directors, including salary/fee, perquisites, benefits and performance-linked incentives etc.

However, as per the recent amendment, the companies may provide the aforesaid details in respect of individual directors as well.

2. QUALIFICATION OF SECRETARY, CFO AND NTERNAL AUDITOR

i) Position of Secretary and CFO should be held by separate individuals

No person shall simultaneously hold the position of Company secretary and Chief financial officer in a listed company. A proviso has been added under regulation 25 for the purpose.

ii) Provision for experience based exemption to existing CFO and Internal Auditor

Existing CFO and Internal Auditor of a listed company having at least fifteen years of experience on the respective positions in a listed company are exempt from the prescribed qualification criteria. To provide these exemptions provisos has been added under regulation 23 and 24 respectively.

No person shall be appointed or continue to hold position of as the CFO or Internal Auditor of a listed company unless such person meets respective qualification criteria or he/she is presently holding same position in a listed company and exempted as aforesaid.

3. INTERNAL AUDIT

An alteration in Regulation 32(2)(b) clarifies that the designated full time employee shall be appointed and act as coordinator even where internal audit services are being provided by the staff of the holding company.

4. REPORTING AND DISCLOSURE

i) TORs of Board Committees

Companies are required to list the names of members of Board Committees in the Directors Report vide Regulation 37. They are now encouraged to share the TORs of such committees on their website.

ii) Disclosure of significant policies on website

Regulation 39 now prescribes the following significant policies, as the minimum, to be entailed on a company's website:

a. Communication and disclosure policy;
b. Code of Ethics;
c. Risk Management policy;
d. Internal Control policy;
e. Whistle blowing policy: and
f. CSR / Sustainability / Environmental, Social and Governance (ESG) related policies.

5. RELAXATION

Fee for filing application for relaxation from the requirement of CCG 2017 has been reduced from Rs. 500,000/- to Rs.100,000/- vide SRO 1476 of 2018 issued on December 06, 2018.

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