



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Specialized Companies Division
Insurance Department

Circular No. 7 of 2005

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Subject: Fit and Proper Test (Criteria) for Chairman/Chief Executive, Board of Directors, and other Key Employees of a Pension Fund Manager under Rule 4(c) of the Voluntary Pension System Rules, 2005

Pension Fund Management is a specialized field that not only affects individuals but has the potential to influence society as a whole. The public at large needs to be confident that persons managing the Pension Funds are competent, honest, financially sound and will treat them fairly. Thus, we need to have a stringent criteria for initial authorization as well as the ongoing operations of the Pension Fund Managers.

2. Pension Fund Managers need to ensure their chairman/ president/ chief executive officer, directors and other key employees, including but not necessarily limited to the officer responsible for the management and investment of the pension fund, chief financial officer/ head of accounts, head of internal audit, head of IT, head of marketing, investment analyst and head of operations, are and are seen to be fit and proper.

3. The fit and proper criteria, which must be observed by a life insurance company or an asset management company for appointment of its chairman/president/chief executive and other key employees to become eligible for registration and to continue its operations as a Pension Fund Manager, are enclosed as Annexure - I.

4. The requisite information about the chairman/ president/chief executive, directors and other key employees would be submitted as per sample Performa (enclosed as Annexure-II) at the time of registration as a pension fund manager. All subsequent personnel changes shall also be provided to the Commission on the above performa.


(SALMAN ALI SHAIKH)
Commissioner (SC)

Distribution:

1. Chief Executives of all Asset Management Companies
2. Chief Executives of all Life Insurance Companies
3. The Chairman, Mutual Funds Association of Pakistan



**Fit and Proper Test (Criteria) for Chairman/Chief Executive, Board of Directors of a
Pension Fund Manager under Rule 4(c) of the
Voluntary Pension System Rules, 2005**

The term "Fit and Proper" is a collective term for all the personal characteristics, academic and professional qualifications, experience and the operational ability that a life insurance company/ asset management company's chairman/ president/ chief executive and directors will be gauged against to provide a basis for the decision by the Securities and Exchange Commission of Pakistan (SECP) whether or not the company has the capacity to act as a Pension Fund Manager under Voluntary Pension System Rules, 2005. Criteria for assessing fitness and propriety of a person are outlined under four captions.

1. Honesty, integrity and reputation;
2. Competence and capability
3. Financial soundness
4. Conflict of interest

It is the cumulative effect of the application of these criteria that will determine the fitness and propriety of a person.

1. Honesty, Integrity and Reputation

In determining a person's honesty, integrity and reputation, the SECP will have regard to matters including, but not limited to, those set out below. SECP should be informed of these matters and will treat each application on a case-by-case basis, taking into account the seriousness of, and circumstances surrounding, the offence, the explanation offered by the convicted person, the relevance of the offence to the proposed role, the passage of time since the offence was committed and evidence of the individual's rehabilitation.

Honesty, integrity and fairness are qualities that are demonstrated over time. These attributes demand a disciplined, on-going commitment to high standards of behavior and honesty. The Pension Fund Manager while selecting/recommending/ appointing a person as Board Member shall ensure that the person: -

- i) Has not been convicted in any criminal offence, involved in any fraud/forgery, financial crime, embezzlement, money laundering, etc.
- ii) Has not been associated with any illegal activity, especially relating to financial sector.
- iii) Has not been in default of payment of dues owed to any financial institution and / or default in payment of any taxes in an individual capacity or as Proprietor of a business, Partner in a partnership firm, Director, Chairman, President or Chief

Executive in any private or public limited company which has defaulted in payment of its dues to financial institutions/tax authorities.

- iv) Has not been subject to any adverse findings or any settlement in civil/criminal proceedings particularly with regard to investments, financial/business misconduct, fraud, formation or management of a corporate body etc.
- v) Has not contravened any of the requirement of financial regulatory system or the equivalent standards of requirements of other regulatory authorities, stock exchanges, professional bodies or government bodies;
- vi) Has not been involved with a company/firm or other organization that has been refused registration, authorization, membership or a license to carry on trade, business or profession, or has had that registration, authorization, membership or license revoked, withdrawn or terminated;
- vii) Has not been refused the right to carry on a trade, business, or profession as a result of the removal of relevant license, registration or other authority;
- viii) Has not been a director, partner or concerned in the management or administration of a business that has gone into insolvency or involuntary liquidation while the person has been connected with that organization or within one year of that connection;
- ix) Has not been debarred for being Chief Executive, Chairman or Director of a company;
- x) Has not been dismissed, or asked to resign, from employment or from a position of trust, fiduciary appointment or similar; and
- xi) Has not ever been a manager or administrator of any fund which was mismanaged or has been in distress due to any fault of its directors or officers.

2. Competence and capability

- (a) The Directors on the Board of a Pension Fund Manager:
 - i. should be individuals having management/business experience of at least five years at a senior level in an active capacity;
 - ii. should be professionally qualified and have demonstrated knowledge in the field of life insurance, banking, mutual funds, accounting, internal audit, law and IT etc.;
 - iii. should not be minors or of unsound mind; and
 - iv. should have their names borne on the register of national tax payers except where such person is a non-resident.

(b) The Chief Executive must demonstrate his competence and ability to understand the technical requirements of the business, inherent risks and management processes required to conduct its operations effectively, with due regard to the interests of all stakeholders. In determining competence, and capability of the Chief Executive, SECP shall take into account all relevant considerations including, but not limited to:

- i. whether the person has demonstrated, through his qualifications and experience, the capacity to successfully undertake the cognate responsibilities of the position;
- ii. whether the person has ever been diagnosed as being mentally ill or unstable;
- iii. whether the person has ever been disciplined by a professional, trade or regulatory body, or dismissed or requested to resign from any position or office for negligence, incompetence or mismanagement; and
- iv. whether the person has a sound knowledge of the business and responsibilities he/she will be called upon to shoulder.

3. Financial soundness

In determining a person's financial soundness, the SECP will consider all relevant factors, including but not limited to:

- i. whether the person has been associated with any illegal activity, specially relating to life insurance, mutual funds, banking or other financial sector business.
- ii. whether the person has been in default of payment of dues owed to any financial institution and/or default in payment of any taxes in an individual firm or in any private unlisted and listed company.
- iii. whether the person has made any arrangements or composition with his creditors, filed for bankruptcy, been adjudged bankrupt, had assets sequestrated, or been involved in proceedings relating to any of these;
- iv. whether the person has been declared a defaulter of a stock exchange.

4. Conflict of interest

In order to safeguard the interest of the participants of a Pension Fund Manager, each of its director, chief executive and chairman of the Board of Directors shall satisfy the following conditions:

- i. Should not be a director of any other Pension Fund Manager.
- ii. Should not be serving as Chief Executive, Chief Financial Officer, Advisor, Research Analyst or a Trader (by whatever name /designation called) in a stock brokerage house or other financial institution that underwrites/manages equity or debt issues or runs its own book of equity or debt investments or in any company/entity owned and controlled by a member of Stock Exchange or financial institution that underwrites/manages equity or debt issues or runs its own book of equity or debt

securities, other than an asset management company/life insurance company approved by the Commission.

- iii. Should not be a member of stock exchange, or in control of more than 20% shareholding of a brokerage house or a financial institution that underwrites/manages equity or debt issues or runs its own book of equity or debt securities.
- iv. Should avoid conflict of interest in his/her activities with and commitments to other organizations.

Provided that the Commission, on being satisfied that there exists an adequate and transparent arrangement between the Pension Fund Manager and the associate undertaking so as to avoid conflict of interest, may waive the requirements of clauses i to iii to such extent as it may deem necessary.

Others

No member/office bearer of any political party or member of Senate, National/ Provincial assembly/assemblies shall be appointed/recommended for appointment as Member of Board of Director and/or President/Chief Executive Officer of Pension Fund Managers.

Prior Clearance

The Pension Fund Manager shall submit the information about the Board Members, President/Chief Executive Officer to SECP as per the Performa enclosed as Annexure-II for its clearance before selection/ appointment of Directors, President/Chief Executive Officer.

Fit and Proper Test for Appointment of Key Employees of a Pension Fund Manager under Rule 4(c) of the Voluntary Pension System Rules, 2005

A Life Insurance Company / Asset Management Company willing to act as a pension fund manager would observe the guidelines in the "Fit and Proper Test" for appointment of key employees particularly those having the following responsibilities:-

- a) Chief Officer responsible for the management and investment of the pension fund
- b) Chief Financial Officer/Head of Accounts,
- c) Head of Internal Audit,
- d) Head of IT,
- e) Investment Analyst
- f) Head of Marketing

2. It is the responsibility of the board of directors to make sure that the aforementioned appointments are made in strict compliance with the Fit and Proper Test. Even though prior approval by the SECP is not required, the companies shall report brief information of such appointments at the time of registration as a pension fund manager or, as and when made, as per format given at Annexure II to the SECP for information and record within 7 days from the date of joining of these executives.

3. In case it is found at subsequent stage/during the course of inspection that guidelines of the Fit and Proper Test have not been followed or the incumbent is not a fit and proper person, strict punitive action will be taken under the relevant provisions of Companies Ordinance and Voluntary Pension System Rules, 2005, in addition to directing the company to dispense with the services of concerned officer if recruited afresh; and in case of existing employee, the same to be transferred from the post immediately.

Fit and Proper Test

I. Honesty, Integrity and Reputation

- (i) He/She has not been convicted of any criminal offence, particularly offences of dishonesty, fraud, financial crime or other offences under legislation relating to banking and financial services;
- (ii) He/She has not been subject of any adverse findings or any settlement in civil/criminal proceedings particularly with regard to investments, financial/business, misconduct, fraud, formation or management of a body corporate etc.
- (iii) He/She has not contravened any of the requirements and standards of regulatory system or the equivalent standards of requirements of other regulatory authorities, which would adversely reflect on the above areas.

II. Competence and Capability

He/She must have adequate professional qualification and experience commensurate to the job as determined by the Pension Fund Manager.

III. Track Record

- (i) He/She has not been removed/ dismissed in the capacity of an employee, director/ chairman on account of financial frauds, moral turpitude, misconduct and misappropriation of funds.
- (ii) No material adverse reports, from past employers of the person being considered for the key executive post.

IV. Financial Soundness

He/She has not been in default of payment of dues owed to any financial institution and/or has not been declared as defaulter in payment of any taxes in individual capacity or as proprietary concern.

V. Conflict of Interest

- (i) He/She does not head more than one functional area that give rise to conflict of interest within the organization. For example the departments of Audit and Accounts cannot be headed by the same person.
- (ii) He/She does not hold directorship in his/her personal capacity in any other pension fund manager.

**PERFORMA****(To be filled by Sponsor Directors, President/Chief Executive)**

PHOTOGRAPH
passport size

1. Full Name _____
2. If You Have Changed Your Name, State Previous Name and Reasons for Change _____
3. Parents and Spouse's Names
 - Father's Name: _____
 - Mother's Name: _____
 - Spouse's Name: _____
4. Date & Place of Birth _____
5. Nationality _____
6. Religion _____
7. N.I.C. Number: Old _____
New _____
8. N.T.N. _____
9. Professional Education (training/studies including dates, colleges and universities, diplomas degrees etc.) _____

10. Membership in Professional organizations _____

11. Occupation / Profession / Trade _____

12. Appointments held during the last five years (with dates) _____

13. Type and duration of the respective activities _____

14. Present Designation, Department and official Address _____

15. Relationship with other Sponsor Directors _____

16. Status of Directorship (shareholder or nominee) _____

17. Subscribed Amount _____

18. Personal Net Worth (Certified copy of Wealth Statement may be enclosed) _____

19. List of Companies / firms other than a life insurance company/asset management company in which sponsor directors and their family members viz. spouses, children and parents serve(d) as directors, chief executive, partner, proprietor or major shareholders holding 5% or more shares as per following format:

Name of the Sponsor Director and his / her family Members	Occupation/ Profession/ Trade	National Tax No.	NIC & Passport No.	Name of Associated Company / Firm position held & % of Shareholding	Name of the Financial Institution with which firms / companies (as per column 5) have dealings with:
1	2	3	4	5	6

National Tax Number of the Corporate Bodies.	Nature of Business	Asset Base as reflected in the latest Audited Accounts of the Corporate Bodies	Dividend declared by the corporate bodies in the immediately preceding three years
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20. Declaration certificate pronouncing integrity, honesty, reputation and track record of the director as per guidelines in the fit and proper test.

21. Present Residential Address: _____

22. Permanent Residential Address: _____

23. Telephone Numbers: Res. _____ Off: _____ Mobile: _____

24. Names & Addresses of three respectable persons (Not Relatives) who have been closely acquainted with you during last five years _____

Signature _____

*use additional sheets if required



PHOTOGRAPH
passport size

PERFORMA
(To be filled by key employees)

1. Full name _____
2. Father's name _____
3. Date & place of birth _____
4. Religion _____ N.T.N. _____
5. N.I.C. number (old & new) _____
6. Professional education (training/studies including dates, colleges and universities, diplomas); _____

7. Membership in professional organizations; _____

8. Occupation / Profession / Trade _____

9. Appointments held during the last five years (with dates); _____

10. Type and duration of the respective activities; _____

11. Present designation, department and nature/scope of duties _____

12. Official address _____
13. Telephone numbers _____

14. If you have changed your name, state previous name and reasons for change _____

15. Name(s) & designation(s) of the direct supervisor (one grade up) under whom you have served during the last five years _____

16. Present residential address in full _____

17. Permanent residential address in full _____

18. Have you ever been convicted of any offence? Yes ☐ No ☐

19. Have you ever been censured or penalized by any financial regulator (local or foreign)

Yes ☐ No ☐

If yes, reasons for adverse findings and amount of penalty imposed if any _____

20. Have you ever been dismissed from employment? Yes ☐ No ☐

If yes, name of the employer and reason for dismissal _____

21. Names & addresses of three respectable persons (not relatives) who have been closely acquainted with you during the last five years _____

Signature & Stamp of concerned official

* use additional sheet if required