

MENA WORKSHOP # 3



**Implementing, Monitoring and
Reviewing the
Code of Corporate Governance**

LESSONS LEARNED FROM PAKISTAN - ENHANCING THE CODE



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Who is Zahid Zaheer



- President & CEO of the Pakistan Institute Of Corporate Governance.
- Fellow Of the Institute of Engineers and Institute of Development Economics.
- Has thirty years Board Room experience as CEO, Non-Executive Director and Institutional Investors representative.
- As Secretary General of OICCI has organized the consultation process , public debate and discussion on the first draft of the Pakistan code of Corporate Governance, which culminated in the finalization of the code in Dec 2002.
- At present Chairman of Board of Directors of a public listed company, Chairman of Audit committee of one and member of Audit committee of another public listed company and Non- Executive Director of four public listed companies





PAKISTAN INSTITUTE OF CORPORATE GOVERNANCE



PICG Profile - I

- A not-for-profit company in Dec 2004
- Public-Private partnership including :
 - Securities and Exchange Commission of Pakistan
 - The State Bank of Pakistan
 - The three Stock exchanges
 - The Banking Insurance and NBFIs Associations
 - Professional bodies of Accountants & Company Secretaries
 - Academia (IBA & LUMS)
 - The Corporate Sector



PICG Profile - II

PICG is involved in :

- Training and education
- Creating awareness
- Undertaking research
- Publishing guidelines and other resource material
- Forum for discussion on corporate governance



Board of Directors

- Mr. Razi-ur Rehman Khan (Chairman- SECP)
- Mr. Zahid Zaheer (President & CEO - PICG)
- Mr. Zaffar A. Khan (Chairman - KSE)
- S. Muhammad Shabbar Zaidi (President - ICAP)
- Mr. S.H.A. Bukhari (OICC&I)
- Mr. Mohammad Aftab Manzoor (PBA)
- Mr. Danishmand (Director- IBA)
- Mr. Zaigham Mahmood Rizvi (Chairman & CEO- HBFC)
- Mr. Jameel Ahmad (Director - SBP)

COUNTRY PROFILE - PAKISTAN



Market Profile

- Market capitalisation **USD 46.7 Billion** (June 2006)
- Second largest in South Asian region
- **54 %** of GDP of country
- High turnover of shares
- **653** companies listed on the largest Stock Exchange in Karachi (KSE)

Market Profile



- Equity not a significant source of finance
- Restricted Free float
- Limited role of Institutional shareholders



Ownership Structure

- Dominantly family ownership
- Control Directly or through associated companies
- Cross-shareholdings & Inter-locking directorships used to retain majority control
- Considerable discretion over external Investors' capital which is strengthened by weak disclosure
- Family-dominated boards are less able to protect minority shareholders

Regulatory Structure



- Key Legislation
- 1969 - Securities & Exchange Ordinance (SEO)
- 1984 - Companies Ordinance (CO)
- 1997 - Securities & Exchange of Pakistan Act
- 2002 -Corporate Governance Code

Awareness Of Corporate Governance



- Code of Governance issued in 2002
- Mandatory for all listed companies
- State Bank of Pakistan also requires all non-listed commercial banks and development financial institutions to comply with the code.
- Some banks include requirements to adhere to C.G. code in loan agreements
- Securities & Exchange Commission Pakistan has issued a code for the insurance sector
- A few rating agencies have started rating companies for CG

Current Status



- Shareholders rights in place
- Registration is secure
- Disclosure improved
 - Quality and timely financials
 - Related party transactions
 - Conflict of interest
 - Shareholding pattern
- Code strengthens role of non-executive directors

Countrywide Corporate Governance Survey



Objectives of the Countrywide Survey of Corporate Governance

1. Establish the extent of following of good corporate governance practices in Pakistan
2. Identify areas for Improvement
3. Establish base line on which to focus Corporate Governance reform activity



Countrywide Corporate Governance Survey (contd..)

Survey Methodology

- In November 2006 Questionnaires were sent out to **371** companies
- **260** Large Listed and Unlisted companies
- **111** Listed and Unlisted Financial Institutions
- A **50%** response was received from the financial sector Institutions and **22%** response from the Listed and Unlisted companies – making a response rate of **30%**
- This was followed up face to face interviews with these who agreed to the Interview

Countrywide Corporate Governance Survey (contd..)



Initial Findings of the countrywide Corporate Governance Survey

- Implementation needs to be improved and largely remains a box ticking exercise
- A need to enhance the Code further



What's Next ?

- Improve compliance in three areas:
 - disclosure
 - reporting
 - Shareholder's meeting
- Regulators to enhance enforcement capability
- Independent oversight of accounting and auditing
- Specificity of independence & enhanced provisions for majority on boards to be made in Code



What's Next ? (cont..)

- Institutional investors to be proactive - adopt and disclose their CG & voting policy
- Accelerate central registry
- Demutualisation of stock exchanges
- Disclosure of Indirect ownership required, presently only direct ownership reported.



What's Next ? (cont..)

- Companies to disclose cross shareholdings of significant shareholders in annual report
- Distance voting for the Shareholder's meeting
- Lowering the legal thresholds for shareholder action
- Establish fiduciary duties of directors in the law



Process of Enhancing the Code

- STEP 1: Constitute Task Force for review
- STEP 2: Draw road map
- STEP 3: Prepare Initial comments on code
- STEP 4: Public debate on proposed changes
- STEP 5: Final draft & review

Process of Enhancing the Code (contd..)



STEP 1 :

A task force of all stakeholders to be lead by PICG assisted with IFC to consist of :

- Representatives of each regulator – Securities & Exchange Commission of Pakistan and the State Bank of Pakistan
- Representative of Stock Exchanges'
- Representatives of Federation of Chambers of Commerce & Industry and OICC&I
- Representative of Professional Institutes - ICAP and ICMAP
- Representative of legal profession
- Original lead authors of the 2002 C.G. code

Process of Enhancing the Code (contd..)



STEP 2 :

Task force to draw map on how to enhance the code

STEP 3 :

IFC to provide comments on existing 2002 code of Corporate Governance

STEP 4 :

PICG/IFC to organize series of public roundtables in Karachi, Lahore and Islamabad to debate the code and the proposed changes in order to ensure sufficient buy-in by all stakeholders.

STEP 5 :

PICG/IFC to produce final draft if code is to be placed on the PICG website for public comment after peer review by GCGF/IFC



Thank you for your attention!

Questions?