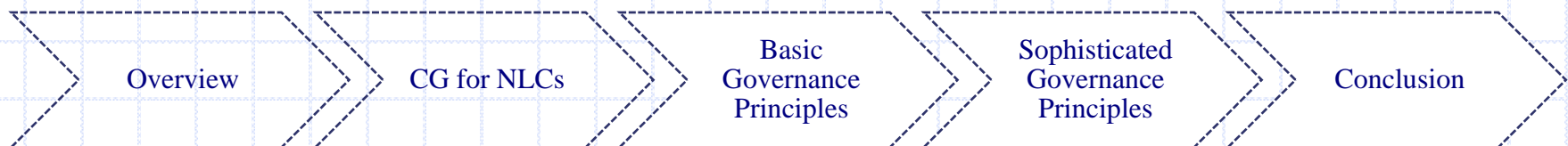


Corporate Governance Principles

Non-Listed Companies





Listed Companies

Non-Listed Companies (NLCs)

604

61,654

~1%

~99%

Total registered companies with the SECP = **62,258** at end Aug-13

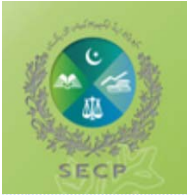
Overview

CG for NLCs

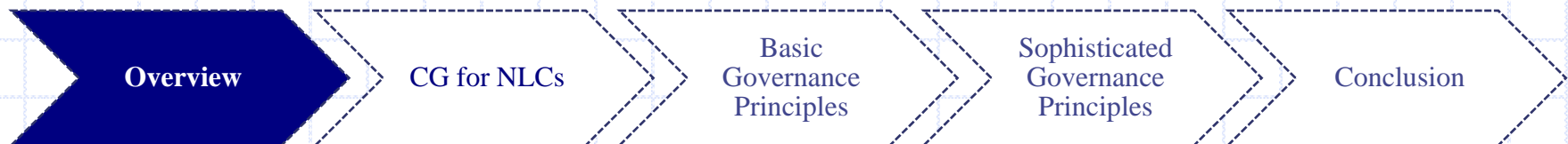
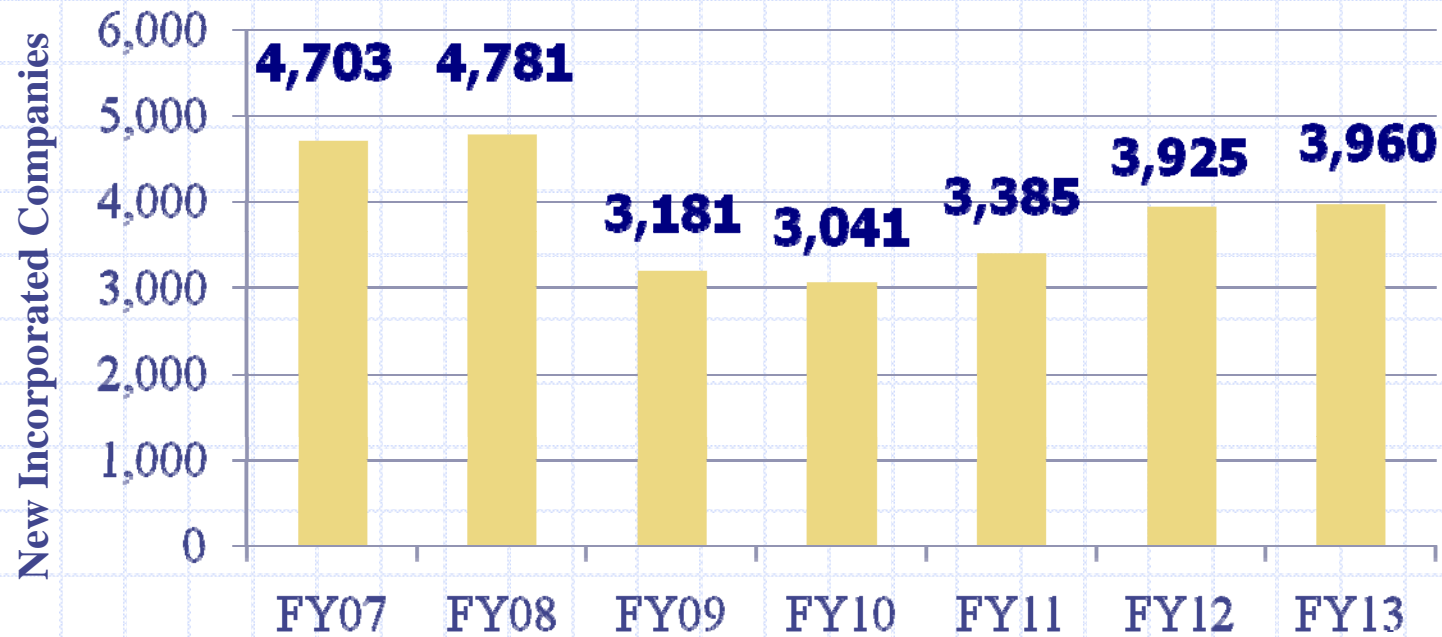
Basic Governance Principles

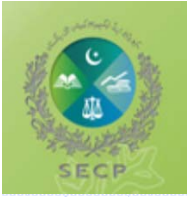
Sophisticated Governance Principles

Conclusion



Year Wise Company Incorporation – SECP

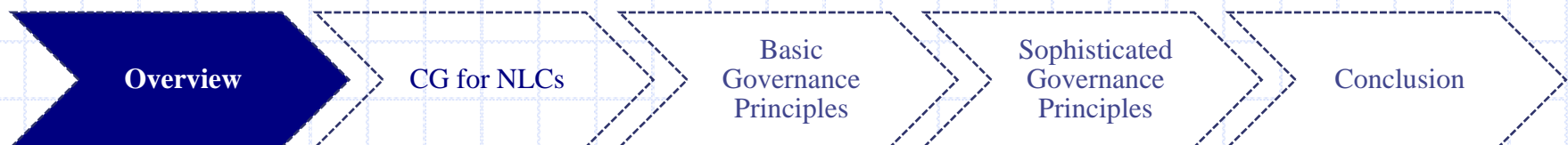


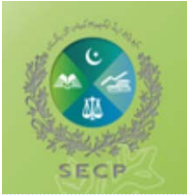


Importance of Corporate Governance to NLCs?



Importance of Good Governance



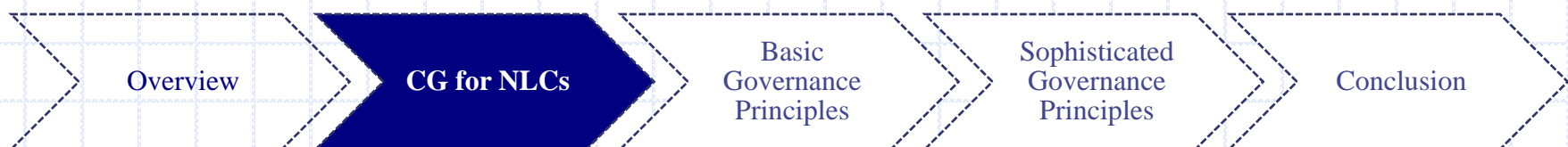


Corporate Governance Principles | Non Listed Companies



Initiative by SECP to provide governance framework for Non-Listed Companies (NLCs)

- Draft Principles issued by SECP in Apr-2013
- Applicable on Voluntary Basis
- Divided into two levels of governance principles | Basic and Sophisticated

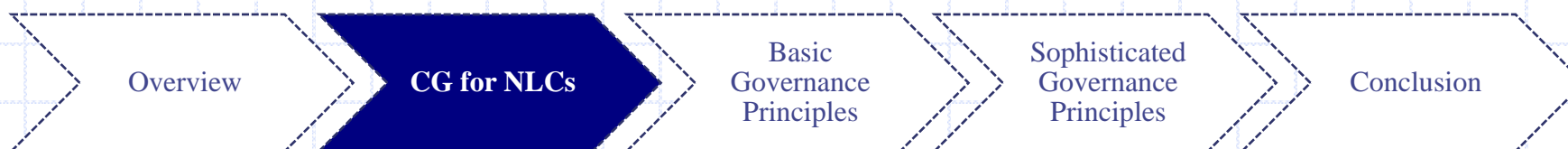




Applicability of CG Principles to NLCs?



	Non-Listed Companies			Listed Companies
Company Definitions	Small-sized companies: <ol style="list-style-type: none"> Has a paid up capital plus undistributed reserves not exceeding Rs. 25 million. Has employees not exceeding 250 at any time during the year. Has annual turnover not exceeding Rs. 250 million (excluding other income). <ul style="list-style-type: none"> All three should be applicable to fall in Small-sized company category. 	Medium-sized company: <ul style="list-style-type: none"> These are companies which fall in between Small-sized companies and Economically significant companies. 	Economically Significant Company: <ol style="list-style-type: none"> Turnover in excess of Rs. 1 billion, excluding other income, number of employees in excess of 750, Total borrowings (excluding trade creditors and accrued liabilities) in excess of Rs. 500million. <ul style="list-style-type: none"> Companies should meet any of the above two criterion for 2 consecutive years. Criteria is based on previous year's audited financial statement. 	Listed Companies: <ul style="list-style-type: none"> A company or a body corporate or other body whose securities are listed.
Non-Profit Organization Definition	Annual gross revenue (grants/subsidies/donations) not exceeding Rs. 100 million.	Annual gross revenue (grants/subsidies/donations) will be more than Rs. 100 million and less than Rs. 500 million.	Having annual gross revenue (grant/subsidies/donations) exceeding Rs. 500 million.	
Applicability	Not Applicable	Phase 1 principles of CG for NLC are applicable.	Both Phase 1 & 2 principles of CG for NLC are applicable	CG Rules (2012) for Listed Companies





Phase 1 Principles (Basic Governance Principles)



1) General

2) Board of Directors | Composition

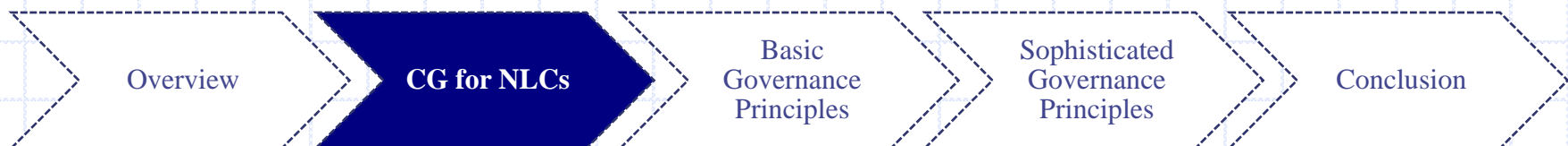
3) Meeting of the BoDs

4) Remuneration of the BoDs

5) Internal control

6) Training for the BoD

7) General meetings





Phase 2 Principles (Sophisticated Governance Principles)



8) Role of Chairman and Chief Executive

9) Independent/Non-Executive Director

10) Board Committees

11) Appraisal of BoDs

12) Annual Report

13) Compliance or Disclosure of Deviation

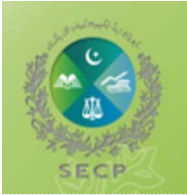
Overview

CG for NLCs

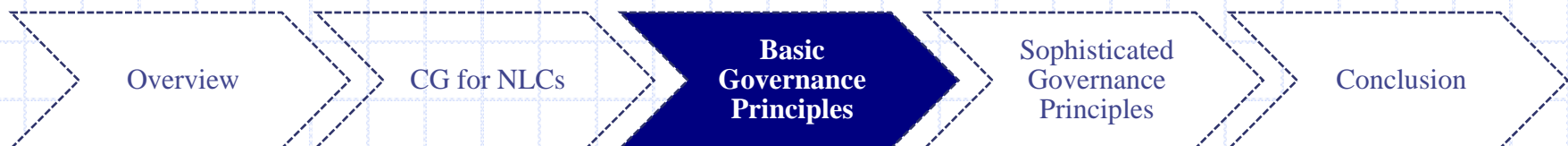
Basic
Governance
Principles

Sophisticated
Governance
Principles

Conclusion



Corporate Governance Principles PHASE 1





Principle 1
GENERAL: Shareholders may establish an appropriate governance framework for the company, which may preferably be contained in their constitutive document.

Key points

- Owners may establish basic framework through the company’s constitutive document.
- There should be a formal schedule which states that :
 - matters reserved for owner’s decision.
 - matters delegated to the board.
- Owners may minimize the extent to which the basic framework of corporate governance constrains the ability of the board to shape the detailed governance framework.





Principle 2

BOARD OF DIRECTOR's (BoD): Every company may strive to establish an effective board, which is collectively responsible for the long-term success of the company.

Key Points:

- Board's role .
- Should take objective decisions.
- Invite independent directors.
- Elect a Chairman of board.
- Appoint a Chief Executive.

Role

- ✓ Set strategic objectives
- ✓ Monitoring & evaluating
- ✓ Set values and standards.
- ✓ Obligation to shareholders & stakeholders
- ✓ Strategic development.
- ✓ Compliance requirement
- ✓ Formal **schedule of matters**
- ✓ Record concerns in the board minutes





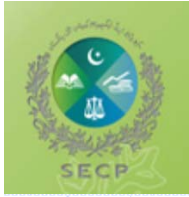
Schedule of Matters include the following :



Proposal: All schedule of matters should be documented in a delegation policy document or internal governance code specifying the limits for each of the delegated matters.

Reserved for Shareholders (at shareholders' meeting)	Reserved for the Board	Powers delegated to the Management
<p><u>Approval</u></p> <ul style="list-style-type: none"> ▪ Auditors appointment. ▪ Annual audited accounts ▪ Changes to the articles of association and memorandum ▪ Sale and lease of significant portion of assets. ▪ Election of directors ▪ Mergers and amalgamations ▪ Investment in associated companies. ▪ Deciding on the dividend. 	<p><u>Supervision</u></p> <ul style="list-style-type: none"> ▪ CE or MD ▪ Controlling company progress. <p><u>Approving</u></p> <ul style="list-style-type: none"> ▪ Corporate plans ▪ Operating and capital budgets including policy related to bad debts. ▪ Major corporate actions such as acquisitions, etc. ▪ Borrowing or creditor guarantees. <p><u>Defining</u></p> <ul style="list-style-type: none"> ▪ Corporate goals, strategy and structure ▪ Authorities delegated to management. <p>▪ <u>Responding</u> to shareholders and third parties.</p> <p>▪ Maintain a Compliance schedule</p> <p>▪ Code of business conduct</p>	<ul style="list-style-type: none"> ▪ Staff recruitment & remuneration ▪ Health & safety operations ▪ Establishing a system of internal control and risk management ▪ Powers of attorney ▪ Signing of regulatory documents ▪ Authorizing financial payment ▪ Signing of contracts on behalf of the company ▪ Executing the strategy agreed upon by the board of directors ▪ Preparing strategic proposals, corporate plans and the budgets.





Principle 2

COMPOSITION OF THE BOARD: The size and composition of the board may reflect the scale and complexity of the company's activities.

Key points

- Should be manageable and of moderate size.
- Balance of skills and experience required.
- Introduction of explicit procedure for the appointment of new directors to the board.





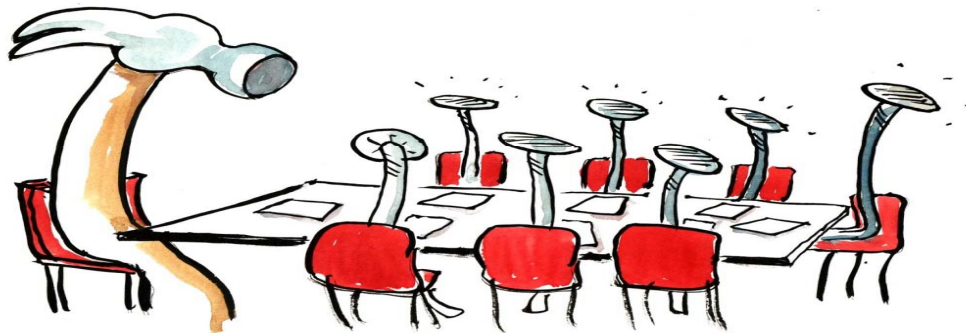
Principle 3
Meeting for Board of Directors: The board may meet regularly to discharge its duties, and the board may be supplied with appropriate information in a timely manner.

Key Points:

- Frequency of meetings : Quarterly
- Consideration for appropriate organization of the meetings.
- **Chairman’s responsibility:**
 - Directors receive timely, accurate and clear information.
- **Managements responsibility** to purvey information
 - Management should be approachable.
- Directors/non-executive directors should have access to independent professional advice at company’s expense.

Structure for Board meetings

- ✓ Agenda by Chairman
- ✓ Circulation before meeting.
- ✓ Minutes taken.
- ✓ Monitor company progress.
- ✓ Full coverage of matters.





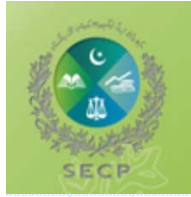
Principle 4

REMUNERATION OF BOARD OF DIRECTORS: Structure of remuneration may be sufficient to attract, retain, and motivate executives and non-executives of the quality required to run the company successfully.

Key Points:

- Distinction between the remuneration of ED and NED.
- Accountability to shareholders.
- Structure of remuneration.
- Develop formal remuneration policy.
- Transparent procedure of policy implementation.
- Comparison of remuneration.
- Executives interests aligned with those of stakeholders.





Principle 5

INTERNAL CONTROL: The board is responsible for risk oversight and may maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.

Key Points:

- Identify and manage the risk
- Formulizing and implementing financial reporting standards.
 - (e.g.; IFRS in Pakistan)
- Periodical assessment of Internal control and risk management function.
- Periodic review should cover all material controls including;
 - Financial systems
 - Operational systems
 - Compliance Systems
 - Risk management Systems





What kind of procedures will likely support an effective internal control environment ?

- Authorization limits
- Segregation of duties
- Accounting reconciliations and monitoring of cash flows
- Suitable qualifications and training
- Budgetary controls
- Security of premises and control over assets.

Important:

The Board should encourage reporting of unethical/unlawful behavior and provide legal protection to the employees who “whistle-blow”.





Principle 6

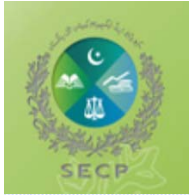
TRAINING OF BOARD OF DIRECTOR: All directors may receive training on joining the board and may regularly update and refresh their skills and knowledge.



Key Points:

- Up gradation of skills and knowledge.
- Attain familiarity with the company.
- Chairman should encourage board members to engage in professional trainings.





Principle 7

GENERAL MEETINGS: There may be a dialogue between the board and the shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The board may not forget that all shareholders have to be treated equally.

Key Points:

- Platform to share information
- *Chairman 's responsibility:*
 - Effectiveness of communication
 - Bridge between the board & shareholders
 - Set an agenda for annual meetings

Best Practice:

AGENDA (direction & Scope)

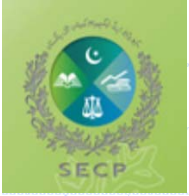
The agenda is sorted into:

- Items for decision;
- Items for discussion;
- Items for noting; and
- Items for information

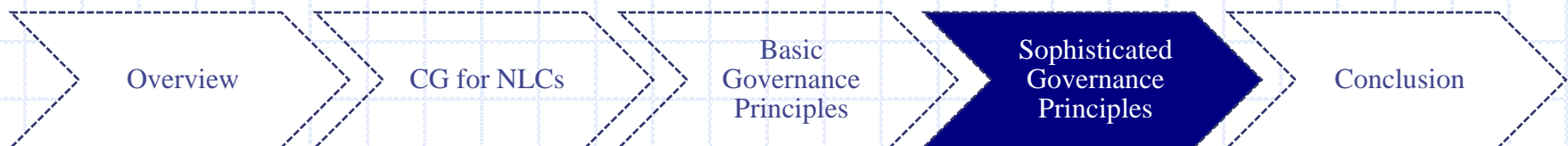
General Meeting Procedures :

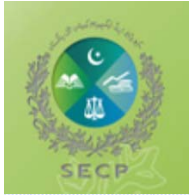
- Approve its own Regulation,
- Sufficient notice to shareholders
- Necessary documents and information made available
- Ensure that shareholders to be aware of items to be discussed
- Furnishing to shareholders all reports
- Make available external and company's professionals for shareholders
- Ensure the right of shareholders present at the Meeting to have their interventions and votes set forth in the minutes





Corporate Governance Principles PHASE II





Principle 8

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE: There may be a clear division of responsibilities at the head of the company between the running of the board and the running of the company's business.

Key Points:

- Division of roles & responsibilities.
- Should be set out in writing and agreed upon.
- With no clear division the board becomes dysfunctional.





Principle 9

INDEPENDENT/ NON EXECUTIVE DIRECTOR: Board structures may contain directors with a sufficient mix of competencies and experiences. No single person (or small group of individuals) should dominate the board's decision making

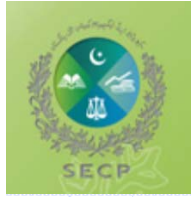
Key Points:

- Sufficient number of NED and ID.
- Devotion and commitment.
- Can scrutinize the Management.
- Can decide remuneration.
- Separate meetings with the Chairman.
- Resignation followed by a written statement.

Key Benefits of Independent Non-executive directors:

- Outside perspective on strategy
- Adding new skills and knowledge
- Independent and objective view.
- Independent hiring and promotion decisions.
- Benefiting from their business connections and contacts.





Principle 10

BOARD COMMITTEES: The board may establish appropriate board committees in order to allow a more effective discharge of its duties.



Key Points:

- Proportionate company committee structure.
- Investment & **Audit Committee** important for NLC's.
- Sufficient resources purveyed for duty purposes.
- Independent directors play an important role.

Audit Committee Responsibilities

- Monitor integrity of financial statements.
- Review of company's internal control and risk management systems.
- Make recommendations to the board (external auditor removal/appointment).
- Approve remuneration & terms of engagement of the external auditor.
- To review & monitor the external auditor's independence & effectiveness.
- To develop & implement policy on the engagement of the external auditor to supply non-audit services.
- To review the risk situation and to monitor risk management processes.





Principle 11

APPRAISAL OF BOARD OF DIRECTORS: The board may undertake a periodic appraisal of its own performance and that of each individual director.



Key Points:

- Appraisal Techniques defined.
- Feedback on effectiveness.
- Group appraisal.
- Individual Appraisal.
- Results of the appraisal.
- Strengths/weaknesses recognized.

Caution

Evaluating individual directors is a sensitive issue. Therefore caution is necessary to avoid conflicts and frustrations. The chairman can be instrumental in bridging the gap between individual and confidential evaluations.

Appraisals should address the following questions:

- Is there sufficient challenge of executive management in board meetings?
- Does the board have the right balance between expertise and independence?
- Does the board correctly perform its duties? Are directors setting direction (guidance and advice on strategy) and monitoring the company (control and risk management) and its management?
- Do board members devote sufficient time and effort to the company and their boardroom role?
- Do board members have adequate access to information and advice?
- Does the board engage sufficiently with shareholders and key stakeholders?
- Are there personal factors that might inhibit individual board members from fulfilling their duties in an independent and objective manner?





Principle 12

ANNUAL REPORT: The board may present a balanced and understandable assessment of the company's position and prospects of compliance with these principles for external stakeholders, and also establish a suitable program of stakeholder engagement.

Annual Report

Why Important?

- Promotes transparency
- Improves public understanding
- Means of communication



Information on following corporate issues

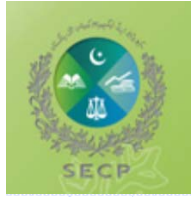
Statement:

- Company's vision and values
- CG principles and governance information
- How the board operates

Details/Outlines:

- Company's business strategy
- Information on all the directors
- Details of appraisals concluded
- Summary of activities and projects





Principle 13

COMPLIANCE OR DISCLOSURE OF DEVIATION: The non-listed companies falling in this phase-2 may circulate compliance with principles of good governance along with their annual report.

Key Points:

- Phase 2 companies may circulate a statement along with their annual reports to set out the status of their compliance with these principles





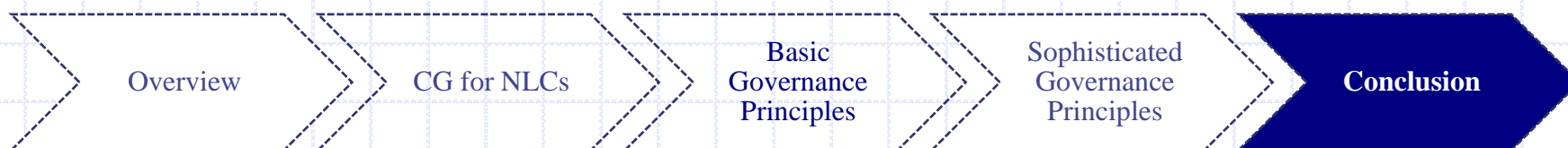
CONCLUSION

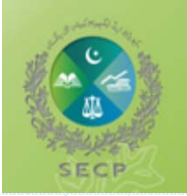


Synopsis: SECP has issued a set of *13 principles* to promote good corporate governance practices at non-listed companies (NLCs). These principles have been divided into two parts and are briefly discussed below:

Phase 1 Principles (1 to 7): These are known as *‘basic governance’* principles. They are applicable to all NLCs and non-profit organizations, excluding *‘small sized companies’* and *small non-profit organizations*. These principles provide the elementary framework for organizations. They encourage companies to establish an effective board in congruence with complexity and size of its operations. They further highlight the significance of properly identifying and communicating the different roles and responsibilities of shareholders, board of directors (BoD) and management, in order to avoid overlap. The principles also cover core areas such as board and shareholder meeting protocols and training and remuneration of board members. Finally, board’s role in identifying and managing risks faced by the organization is captured.

Phase 2 Principles (8 to 13): These are known as *‘sophisticated governance’* principles. They are applicable to all organizations that fall under the definitions of *‘Economically Significant companies’* or *larger non-profit organizations*. The principles deal with slightly more advance issues. One of the key points covered here is distinction between roles of the Chief Executive and Chairman. As these principles are applicable to larger companies, the need for induction of independent directors and their roles is also addressed. Further, the principles encourage formation of board committees to deal with specific matters. An evaluation criterion for board of directors has been provided to assist companies with their evaluation process. Finally, the principles deal with disclosure related measures which include presenting financial statements and stated compliance with underlying CG principles.





Acronyms & Bibliography



List of Acronyms

- BoD – Board of Directors
- CG – Corporate Governance.
- ED – Executive Director
- IFRS – International Financial Reporting Standards.
- NED – Non-Executive Director
- NLC – Non-Listed Companies

Bibliography

- The Companies Ordinance, 1984
- Draft Principles of Corporate Governance for Non-Listed Companies, SECP (Apr-13)
- SECP newsletter (Fall Edition 2013)
- SECP Annual Report 2011-2012
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<p>Adnan Dilawar Unit Head – Analytics adnan@pacra.com</p>	<p>Ali Eeman Manager – Analytics ali@pacra.com</p>	<p>Qazi Hammad Jan Financial Analyst Qazi.hammad@pacra.com</p>
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Contact Number: +92 42 3586 9504

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