



KPMG Taseer Hadi & Co.  
Chartered Accountants

# A brief on the Listed Companies (Code of Corporate Governance) Regulations, 2017



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The Securities and Exchange Commission notified the Listed Companies (Code of Corporate Governance) Regulations, 2017 on 22 November 2017. These regulations would replace Code of Corporate Governance revised in 2012. This publication contains a synopsis of the new code and an analysis of the pertinent differences between the repealed and the new Code.

These Regulations shall apply to listed companies and to all other entities, to the extent applicable, where the statutes and underlying licensing requirements require such entities to comply with these Regulations. Unless otherwise specified, words and expressions used but not defined in these Regulations shall have the same meaning as assigned to them in the Companies Act 2017 ("the Act") and the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997).

These Regulations shall come into force for the period starting after 31 December 2017.

We recommend that while considering the application of various provisions to any particular case, reference should be made to the specific wordings of the relevant statute.

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# Synopsis of the 2017 Code

## *Number of directorship and composition of Board*

- No person can hold the office of a director of a listed company including as an alternate director in more than five listed companies (listed subsidiaries of listed holding company excluded).
- Independent directors shall not be less than two members or one third of the total whichever is higher.
- At least one female director needs to be appointed whenever board is next reconstituted or within the next one year whichever is later.
- Executive directors, including the chief executive officer, shall not be more than one third of the board. Executive director for this purpose means a director who devotes whole or substantially the whole of his time (whether paid or not) to the operations of the company.
- Chairman and Chief executive officer shall not be the same person.
- Minority members as a class shall be facilitated to contest election of directors by proxy solicitation in prescribed manner.

## *Responsibilities of Board of Directors and its members*

- Board of directors shall carry out its fiduciary duties with a sense of objective judgment and in good faith in the best interests of the company and its stakeholders.
- Board is responsible for the governance of risk and for determining the company's level of risk tolerance by establishing risk management policies. The board shall undertake an overall review of business risks at least annually.

- All directors of a company shall attend its general meetings unless precluded from doing so due to any reasonable cause.
- The chairman of the Board at beginning of term of each director, shall set the role, obligations, powers and responsibilities in accordance with the Act and Company's Articles.
- Board shall maintain a complete record of particulars of the significant policies along with their dates of approval or updating.
- Board shall ensure that vision / mission statement, formal code of conduct, internal control system and mechanism for an annual evaluation of the board's own performance are in place.

## *Meeting of Board*

- Chairman shall set the agenda of the meeting of the board and shall ensure that minutes of the meeting are kept in accordance with the requirements of the Act.
- In case of dissent if any director considers that the dissenting note has not been satisfactorily recorded, he may refer the matter to the company secretary for appending the note in minutes. In case of company's secretary's failure to do so, he may file an objection with the Commission.
- Chief financial officer and company secretary shall attend all meetings of the board of directors except wherein agenda item relates to their interest.

## *Issues to be placed for decision of Board of Directors*

- Chief executive officer shall place significant issues for the information, consideration and decision of the board of directors or its committees.

- Details of all related party transactions shall be placed periodically before the Audit Committee and upon their recommendation to the board.
- Where the majority of directors are interested in any transaction the matter shall be placed before general meeting for approval.
- Related party transactions, not executed at arm's length price, shall also be placed separately at each board meeting along with necessary justification.
- For consideration and decision of the board on any agenda item where any director has a conflict of interest, the quorum of the meeting shall include at least two independent directors other than the interested director.
- The mandatory training for all directors to be completed by 30 June 2021, with target of 50% and 75% by 30 June 2019 and 30 June 2020 respectively.
- A newly appointed director on the board shall acquire the directors training program certification within a period of one year from the date of appointment as a director on the board.
- Director having a minimum of 14 years of education and 15 years of experience on the board of a listed company shall be exempt from the directors training program if exemption from Commission is obtained.
- At least one female executive and at least one head of department to attend Directors' training program from the year starting 30 June 2019 and 30 June 2021 respectively.

### *Remuneration of directors*

- The board shall have in place a formal policy and transparent procedure for fixing the remuneration and packages of individual directors for attending meetings of the board and the committees.
- Where the Company's Articles authorizes the board to determine director's remuneration, an independent consultant may be engaged to recommend an appropriate level of remuneration.
- Levels of remuneration shall be appropriate and commensurate with the level of responsibility and expertise, to attract and retain directors needed to govern the company successfully and to encourage value addition. However, it shall not be at a level that could be perceived to compromise their independence.

### *Directors' Training Program*

- Orientation courses for directors to acquaint them with these Regulations, applicable laws, their duties and responsibilities shall be carried out.

### *Chief Financial Officer, Company Secretary and Head of Internal Audit*

- Board shall determine appointment, remuneration, terms and conditions of employment of chief financial officer, company secretary and head of internal audit of companies. Their removal shall also be made with the approval of the board. Audit committee may recommend the removal of head of internal audit of companies.
- The chief financial officer, head of internal audit and company secretary shall be experienced and qualified as specified on page no. 10 to 11 of this document.
- Same person cannot be appointed as chief financial officer and company secretary in a listed company as the terms of reference of the two positions are distinct.

- Same person cannot be appointed as company secretary and internal auditor as the two positions carry minimal synergy.
- It is preferred that companies appoint such individual as chief financial officer and head of internal audit who have experience of working in finance or audit departments of a listed company.

### *Responsibility for Financial Reporting and Corporate Compliance*

- Chief executive officer and the chief financial officer shall sign the quarterly, half-yearly and annual financial statements before these are placed before the board.
- CEO and CFO shall get annual and interim (half yearly) financial statements initialed by external auditors before presenting these to the audit committee and the board of directors for approval.

### *Committees of Board*

#### *Audit Committee*

- Board shall constitute an Audit Committee of at least three members comprising of non-executive directors and at least one independent director. The chairman of the Committee shall be an independent director and should not be chairman of the Board.
- The secretary of the Committee shall either be the Company Secretary or head of internal audit.
- At least one member shall be “financially literate”.
- Committee shall meet at least once every quarter prior to the approval of interim results of the company by its board of directors and after completion of external audit.

- Meeting of the committee shall be convened on the requisition of external auditors or the head of internal audit.
- Head of internal audit and external auditors shall attend meetings at which issues relating to accounts and audit are discussed.
- At least once a year, the audit committee shall meet the external auditors without the chief financial officer and the head of internal audit being present.
- At least once a year, the audit committee shall meet the head of internal audit and other members of the internal audit function without the chief financial officer and the external auditors being present.
- Chief executive officer and chief financial officer shall attend meeting only upon invitation.
- Secretary of audit committee shall circulate minutes of meetings of the audit committee to all members of the audit committee, directors, head of internal audit and where required to chief financial officer prior to the next meeting of the board.
- Board shall determine terms of reference of the audit committee ensuring compliance with the Code.

#### *Human Resource and Remuneration Committee*

- Board shall constitute a Human Resource and Remuneration Committee of at least three members comprising a majority of non-executive directors and at least one independent director. The chairman shall be an independent director. CEO may be included as a member of the committee.
- Meeting shall be held at least once a year and can be attended by chief executive officer, head of

human resource or any other advisor upon invitation.

- Board shall determine terms of reference of the Committee ensuring compliance with the Code.

#### *Nomination Committee*

- The board may constitute a separate nomination committee. The committee shall be responsible for considering and making recommendations in respect of the board committees, chairmanship of the board committees and reviewing the structure, size and composition of the board.

#### *Risk Management Committee*

- The board may constitute a risk management committee to review effectiveness of risk management procedures and present a report to the Board.

#### *Internal Audit*

- There shall be an internal audit function in every company. The head of internal audit shall functionally report to the audit committee and administratively to the chief executive officer.
- A director cannot be appointed in the internal audit function.
- Internal audit reports shall be provided for the review of external auditors.

#### *External Audit*

- External auditors shall have a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and be registered with Audit Oversight Board of Pakistan.

- Board shall recommend appointment of external auditors and their remuneration, as suggested by the audit committee. Recommendations of the audit committee shall be included in the Directors' Report.

- Auditors can be appointed to provide services in addition to audit in accordance with the regulations. However, auditors shall not perform management functions or make management decisions, responsibility for which remains with the board of directors and management of the company.

- External auditor shall not be a close relative of the chief executive officer, the chief financial officer, the head of internal audit, the company secretary or a director of the company.

- Every company shall require external auditors to furnish a management letter to the board of directors within 45 days of the date of audit report.

- All listed companies in the financial sector shall change their external auditors every five years. All other listed companies shall rotate the engagement partner after every five years.

- All inter related companies/ institutions, engaged in business of providing financial services shall appoint the same firm of auditors for audit of accounts.

#### *Reporting & Disclosure*

- The quarterly unaudited financial statements of companies shall be published and circulated along with directors' review.
- Board shall state number of directors, composition of the board and names of members of board committees in the directors' report.

- Directors in their report to members shall state the remuneration policy of non-executive directors.
- Annual Report shall contain details of aggregate amount of remuneration separately of executive and non-executive directors.
- Key elements of significant policies can be placed on website.
- All companies shall publish and circulate a statement of compliance with the requirements of the code, duly reviewed by statutory auditors.

### *Compliance with Regulations*

- Penalty shall be imposed in event of contravention of any requirements of the Regulations.
- Commission may relax a penalty if it is satisfied about impracticability of compliance with any requirement, on the application of the company.

# Significant changes from the 2012 Code

## Chapter I - PRELIMINARY

### Definitions

Unless otherwise specified, words and expressions used but not defined in these regulations shall have the same meaning as assigned to them in the Companies Act, 2017 ("the Act") and the Securities and Exchange Commission of Pakistan Act, 1997. The Act includes various definitions e.g. independent director, which were previously part of the Code.

## Chapter II - Number of Directorship and Composition of Board

### Number of Directorship and Composition of Board

#### *Regulation 3*

Effective from the date the Board is reconstituted or one year of the effective date of these Regulations, (i.e. 31 December 2018) whichever is earlier a person shall not be elected or nominated or hold office as a director or an alternate director of more than five (previously seven) listed companies simultaneously. The new Code has included alternate director in calculation of this limit which was not specified in 2012 Code.

### Diversity in Board

#### *Regulation 4*

The board of directors shall comprises of members having the core competencies, diversity, requisite skills, knowledge, experience and fulfils any other criteria relevant in the context of the company's operations.

2012 Code also required almost same competencies but the wordings used were encouraged and now they have been changed to 'shall'.

### Independent Director

#### *Regulation 6*

The independent directors of each listed company shall not be less than two members (in the 2012 code one member) or one third of the total members of the board, whichever is higher. For the purpose, the board shall be reconstituted not later than expiry of its current term pursuant to effective date of these Regulations.

The independent director shall submit a consent to the Company and declaration to the chairman of Board at first meeting in every financial year and on an event of any change affecting his independence that he qualifies the criteria of independence mentioned in the Companies Act, 2017.

The introduction of annual declaration is a new requirement and the responsibility has now been shifted to the individual member instead of Company.

### Female Director

#### *Regulation 7*

Effective from the date the Board is reconstituted or one year of the effective date of these Regulations, (i.e. 31 December 2018) whichever is earlier, the board of directors shall have at least one female director.

### Executive Director

#### *Regulation 8*

The executive directors, including the chief executive officer, shall not be more than one third of its board of directors. There is no significant change from the 2012 Code in the number of executive directors. Only

change is that now all executives are included whether paid or not by virtue of addition of following explanation.

Explanation:

Executive director means a director who devotes the whole or substantially the whole of his time (whether paid or not) to the operations of the company. In the 2012 code, paid executives of the company from among senior management were categorized as executive directors.

## **Chairman of Board**

*Regulation 9*

The new code requires that chairman and the chief executive officer of a company, by whatever name called, shall not be the same person.

## **Chapter III - Responsibilities of Board of Directors and its members**

### **Risk management, internal controls and annual review of business risks**

*Regulation 10 (2)*

The new code states that the board of directors is responsible for the governance of risk and for determining the company's level of risk tolerance by establishing risk management policies. Previous wordings required the Board to ensure that the Company has such policies.

The new code also requires that the Board shall undertake at least annually, an overall review of business risks to ensure that the management maintains a sound system of risk identification, risk management and related systemic and internal controls to safeguard assets, resources, reputation and interest of the Company and shareholders.

## **Documentations to be maintained by the Board of Directors**

*Regulation 10 (3(v) & (vi))*

The new code has added annual evaluation of the board's own performance, members of the Board and its committees. Previously, this was limited to board's own performance.

The new code has excluded the banking companies from requirement of documenting by a board resolution, determination of the nature of loans and advances made by the company and fixing a monetary limit thereof.

## **Significant policies**

*Regulation 10 (4)*

The new code requires that board of directors shall maintain a complete record of particulars of the significant policies along with their date of approval or updating. Previously the board of directors was only required to ensure that such record is maintained by the Company.

Among the list of significant policies to be maintained policy for 'permissible fee for non-executive directors including independent directors' has been added.

## **Chairman of Board**

*Regulation 10 (5)*

The new code requires that the Chairman of the Board shall, at the beginning of term of each directors, issue letter to directors setting out their role, obligations, powers and responsibilities in accordance with the Companies Act, 2017 and company's Articles of Association, their remuneration and entitlement. This is a new requirement.

## Attending the meetings

### *Regulation 10 (6)*

The new code now requires all directors to attend all general meeting(s), (ordinary and extra-ordinary) unless precluded from doing so due to any reasonable cause.

## **Chapter IV - Meeting of Board**

### Agenda and discussion in meetings

#### *Regulation 11*

The new code requires the chairman to set the agenda of the meeting of the board and ensure that reasonable time is available for discussion of the same.

### Attendance at meeting

#### *Regulation 13*

The new Code gives power to the board to exclude the Chief Financial Officer and company secretary from meetings of the board when, in the opinion of the board, their presence in the meeting on any agenda item is likely or may tend to impair the organizational discipline and harmony of the company.

## **CHAPTER V - Issues to be placed for decision of Board of Directors**

### Significant issues

#### *Regulation 14*

Following significant matters have been added in the non-exhaustive list of issues, which needs to be placed before the Board of directors or its committee:

- (i) Sale of assets, investments and interest in subsidiaries and undertakings, of material amount or significant nature, which is not in the ordinary course of business.
- (ii) Quarterly details of foreign exchange exposures and the safeguards taken by management against adverse exchange rate movement, if material.
- (iii) Reports on / synopsis of issues and information pursued under the whistle blowing policy, clearly disclosing how such matters were dealt with and finally resolved or concluded (previously it just stated whistleblower protection mechanism).
- (iv) Implementation of environmental, social and governmental and health and safety business practices including report on corporate social responsibility (Voluntary) Guidelines 2013 or any other regulatory framework as applicable. Previously, it just stated 'report on CSR activities'.

## Related party transactions

### *Regulation 15*

The details of all related party transactions where majority of directors are interested in such transactions, shall be placed before the general meeting for approval.

For related party transactions, not executed at arm's length price, the requirements of Section 208 of the Companies Act, 2017 have been referred. Such related party transactions shall be placed before the general meeting for special resolution under Section 208 of the Companies Act, 2017.

Section 208 of the Companies Act, 2017 further states that a company may enter into any contract or arrangement with a related party only in accordance with the policy approved by the Board.

## Conflict of Interest

### Regulation 16

A new requirement with respect to quorum of the meeting has been added that in case of a board meeting where the agenda items include such matters where any of the directors is interested, the quorum of the meeting will not be complete unless at least two independent directors are present in person or through video link when such matter comes up for the first time for consideration of the board.

## CHAPTER VI - Remuneration of Directors

### Formal Policy

#### Regulation 17

The Board shall have in place a formal policy and transparent procedure for fixing the remuneration packages of individual directors for attending meetings of the board and its committees.

### Determination of remuneration

#### Regulation 18

Levels of remuneration shall commensurate with the level of responsibility and expertise, to attract and retain directors needed to govern the company successfully and to encourage value addition. It shall not be at a level that could be perceived to compromise their independence.

The new code requires that if the articles of association authorizes the board to determine director's remuneration, an independent consultant may be engaged to recommend an appropriate level of remuneration for consideration and approval of the board.

## CHAPTER VII - Directors' Training Program

### Directors' Training

#### Regulation 20

This Regulation has been updated to include stringent deadlines for director's training in 3 phases:

30 June 2019	at least half of the directors on their boards
30 June 2020	at least 75% of the directors on their boards
30 June 2021	all the directors on their board

Previously, the deadline for acquiring the mandatory training for all directors was 30 June 2017.

A newly appointed director (unless exempted or already in possession of the required certification) shall acquire, the directors training program certification within one year of appointment.

A director having a minimum of 14 years of education and 15 years of experience on the board of a listed company, local and/or foreign, shall be exempt from the directors training program. The Commission shall grant exemption to such directors keeping in view the relevancy of qualification and experience of directors. 2012 code also contained this clause but the requirement of obtaining exemption from Commission has been added.

A new requirement has been added that it shall be mandatory for every company to arrange training under Directors' Training program for at least one female executive every year from the year starting 30 June 2019 and at least one head of department every year from the year starting 30 June 2021.

## **CHAPTER VIII -Chief Financial Officer, Company Secretary and Head of Internal Audit**

### **Qualification of chief financial officer**

#### *Regulation 23*

The qualification requirements of CFO have been eased as follows:

- at least three years of managerial experience in fields of audit or accounting or in managing financial or corporate affairs of a company and is a member of the Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan; or
- at least five years of managerial experience in fields of audit or accounting or in managing financial or corporate affairs functions of a company and is either a member of professional body of accountants whose qualification is recognized as equivalent to post graduate degree by HEC or has a postgraduate degree in finance from a university in Pakistan or equivalent recognized and approved by the Higher Education Commission of Pakistan (HEC); or
- at least seven years of managerial experience in fields of audit or accounting or in managing financial or corporate affairs functions of a company and has a suitable degree from a university in Pakistan or abroad equivalent to graduate degree, recognized and approved by the Higher Education Commission of Pakistan (HEC). The Commission, on application from the company, shall determine the suitability of such candidate.

Previously, a person with post graduate degree in finance from a recognized university or equivalent and three years experience could be appointed as CFO.

The 2012 code also provided that the individuals serving as CFO of a listed company for the last five years at the time of coming into effect of this Code shall be exempted from the qualification requirement. Such proviso has been deleted. By implication, it appears that anyone serving as CFO and not meeting the qualification requirement would need to be changed.

### **Appointment and Removal of Chief Financial Officer, Company Secretary and Head of Internal Audit**

#### *Regulation 21 and 22*

The board of directors shall determine appointment, remuneration, terms and conditions of employment of the chief financial officer, the company secretary and head of internal audit of listed companies.

Approval of the board of directors is required for removal of chief financial officer, company secretary and head of internal audit of a company.

### **Qualification of Internal Auditor**

#### *Regulation 24*

The qualification requirements for head of internal audit have been eased as follow:

- three years of relevant experience in audit or finance or compliance function and is a member of the Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan; or
- five years of relevant experience in audit or finance or compliance function and is a Certified Internal Auditor; or a Certified Fraud Examiner; or a Certified Internal Control Auditor; or has a post graduate degree in business, finance from a university or equivalent recognized and approved by the Higher Education Commission of Pakistan

(HEC) and is a member of a professional body relevant to such qualification, if applicable; or

- seven years of managerial experience in fields of audit or accounting or in managing financial or corporate affairs functions of a company and has a suitable degree from a university in Pakistan or abroad equivalent to graduate degree, recognized and approved by the Higher Education Commission of Pakistan (HEC). The Commission, on application from the company, shall determine the suitability of such candidate.

Previously, persons with three years experience and Certified Internal Auditor or Certified Fraud Examiner or Certified Internal Control Auditor qualification were eligible for appointment as Head of Internal Audit.

The 2012 code also provided that the individuals serving as Head of Internal Audit of a listed company for the last five years at the time of coming into effect of this Code shall be exempted from the qualification requirement. Such proviso has been deleted. By implication, it appears that anyone serving as Head of Internal Audit and not meeting the qualification requirement would need to be changed.

Body of professional accountants means:

- established in Pakistan, governed under a special enactment of the Federal Government as a self-regulatory organization managed by a representative National Council, and has a prescribed minimum criterion of examination and entitlement of membership of such body;
- established outside Pakistan and established under a special enactment in the country of its origin and which is a member of the International Federation of Accountants (IFAC).

## Qualification of Company Secretary

### *Regulation 25*

No person shall be appointed as the Company Secretary unless he holds the qualification as specified under the relevant Regulations by the Commission.

### *Chief financial officer, internal auditor and company secretary should be different (FAQs)*

Same person cannot be appointed as chief financial officer and company secretary in a listed company as the terms of reference of the two positions are distinct.

Same person cannot be appointed as company secretary and internal auditor as the two positions carry minimal synergy.

It is preferred that companies appoint such individual as chief financial officer and head of internal audit who have experience of working in finance or audit departments of a listed company.

## **CHAPTER IX - Responsibility for Financial Reporting and Corporate Compliance**

No major change.

## **Chapter X - Committees of Board Audit Committee**

### *Regulation 28 (1)*

It is mandatory for a chairman of the Audit committee to be an independent director, who shall not be the chairman of the board. Previously, it was preferable.

## Meeting

### *Regulation 28 (2)*

The chief executive officer and the chief financial officer shall not attend any meeting of the audit committee except by invitation.

According to the 2012 Code, the CFO was required to attend meetings of audit committee at which issues relating to accounts and audit are discussed.

The 2012 Code required the circulation of minutes of the Audit Committee meetings to the CFO as well. However, as per the new code, the secretary of the Audit Committee shall circulate minutes of meetings to the CFO, where required.

## Terms of Reference

### *Regulation 28 (3)*

Following has been added in the TOR of the Audit Committee:

- review of arrangement for staff and management to report to audit committee in confidence, concerns, if any, about actual or potential improprieties in financial and other matters and recommend instituting remedial and mitigating measures.

## Human Resource and Remuneration Committee

### *Regulation 29*

#### *Composition*

There shall be a human resource and remuneration (HR&R) committee of at least of three members comprising a majority of non-executive directors of

whom at least one member shall be an independent director.

The chairman of the committee shall be an independent director. The chief executive officer may be included as a member of the committee.

#### *Meeting*

The committee shall meet at least once in a financial year and may meet more often if requested by a member of the board, or committee itself or the chief executive officer. The head of human resource or any other person appointed by the board of directors may act as the secretary of the committee.

The chief executive officer (if not a member of the committee), head of human resource (if not the secretary to committee) or any other advisor or person may attend the meeting only by invitation. A member of committee shall not participate in the proceedings of the committee when an agenda item relating to his performance or review or renewal of the terms and conditions of his service comes up for consideration.

#### *Terms of Reference*

The terms of reference of committee shall be determined by the board of directors which may include the following:

- recommend to the board for consideration and approval a policy framework for determining remuneration of directors (both executive and non-executive directors and members of senior management). The definition of senior management will be determined by the board which shall normally include the first layer of management below the chief executive officer level;
- undertake annually a formal process of evaluation of performance of the board as a whole and its committees either directly or by engaging external

independent consultant and if so appointed, a statement to that effect shall be made in the directors' report disclosing name, qualifications and major terms of appointment;

- recommending human resource management policies to the board;
- recommending to the board the selection, evaluation, development, compensation (including retirement benefits) of chief operating officer, chief financial officer, company secretary and head of internal audit;
- consideration and approval on recommendation of chief executive officer on such matters for key management positions who report directly to chief executive officer or chief operating officer; and
- where human resource and remuneration consultants are appointed, their credentials shall be known by the committee and a statement shall be made by them as to whether they have any other connection with the company.

## Nomination Committee

### *Regulation 30*

The board may constitute a separate committee, designated as the nomination committee, of such number and class of directors, as it may deem appropriate in its circumstances.

The nomination committee shall be responsible for considering and making recommendations to the Board in respect of the Board committees and the chairmanship of the Board committees.

It is also responsible for keeping the structure, size and composition of the Board under regular review and for making recommendations to the Board with regard to any changes necessary. The terms of reference of nomination committee shall be determined by the

board of directors ensuring there is no duplication or conflict with matters stipulated under terms of reference of HR&R committee.

## Risk Management Committee

### *Regulation 31*

The board may constitute the risk management committee, of such number and class of directors, as it may deem appropriate in its circumstances, to carry out a review of effectiveness of risk management procedures and present a report to the Board.

The terms of reference of the committee may include the following:

- Monitoring and review of all material controls (financial, operational, compliance);
- Risk mitigation measures are robust and integrity of financial information is ensured; and
- Appropriate extent of disclosure of company's risk framework and internal control system in Directors report.

## CHAPTER XI -Internal Audit

### *Regulation 32*

The performance appraisal of the head of internal audit shall be done jointly by the Chairman of the audit committee and the chief executive officer.

The board shall ensure that the internal audit team comprises of experts of relevant disciplines in order to cover all major heads of accounts maintained by the company.

## CHAPTER XII - External Audit

### Terms of appointment

#### *Regulation 33*

A company shall appoint as external auditors, a firm of auditors, which has been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan. With the formation of Audit Oversight Board, the registration requirement with them has been added. However, the registration requirements have not been notified by the Audit Oversight Board as yet.

No company shall appoint a person as an external auditor or a person involved in the audit of a company who is a close relative (spouse, parents, dependents and non-dependent children) of the chief executive officer, the chief financial officer, the head of internal audit, the company secretary or a director of the company. The company secretary has been added to previous requirement.

### Rotation of auditors

#### *Regulation 34*

All inter related companies / institutions, engaged in business of providing financial services shall appoint the same firm of auditors to conduct the audit of their accounts. This was a separate communication from both SECP and SBP before and now it has been incorporated in the Code.

Financial sector, for this purpose, means banks, non-banking financial companies (NBFCs), modarabas and insurance / takaful companies.

## CHAPTER XIII - Reporting & Disclosure

### Composition of Board

#### *Regulation 36*

The board shall state in the Directors' Report total number of male and female directors and Composition of Independent Directors, Other Nonexecutive Directors and Executive Directors.

### Committees of the Board

#### *Regulation 37*

The names of Members of board committees shall be disclosed in each Directors' Report of the company.

### Director's remuneration

#### *Regulation 38*

The Directors in their report to members shall state the remuneration policy of non-executive directors including independent directors, as approved by the board of directors. This includes disclosing the significant features and elements thereof. Companies are also encouraged to post on the company's web site the key elements of the directors' remuneration policy.

### Disclosure of significant policies on website

#### *Regulation 39*

The Company may post the key elements of its significant policies on its website.

## CHAPTER XI – Compliance with Regulations

### Penalty for contravention of Regulations

#### Regulation 41

Whoever fails or refused to comply with, or contravenes any requirements of the Regulations, knowingly or willfully authorizes or permits such failure, refusal or contravention, in addition to any other liability under the Act, be punishable with a penalty which may extend to Rs. 5 million and, where the contravention is a continuing, with a further penalty which may extend to Rs. 100,000 for every day after the first during which such contravention continues (Section 512 (2) of the Act). This is a new provision. 2012 Code did not contain any penal provision.

### ANNEXURE A – Statement of Compliance

The following clauses of the 2012 statement of compliance have not been specifically included in the 2017 statement of compliance:

- The independent directors meet the criteria of independence under the code.
- All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- The Directors' Report for this year has been prepared in compliance with the requirements of the code and fully describes the salient matters required to be disclosed.

- The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
- The company has complied with all the corporate and financial reporting requirements of the code.
- The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of the company's securities, was determined and intimated to directors, employees and stock exchange(s).
- Material / price sensitive information has been disseminated among all market participants at once through the stock exchange.



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