

GOVERNMENT OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Islamabad, the 19th October, 2020

NOTIFICATION

S.R.O. 1085 (I)/2020.- In exercise of the powers conferred under section 40B read with clause (u) of subsection (4) and clauses (fa), (fb), (fc) & (g) of sub-section (6) of section 20 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997), and clause (f) of sub-section (1) of section 11 and section 12 of the Insurance Ordinance, 2000 (XXXIX of 2000), the draft amendments to the Code of Corporate Governance for Insurers, 2016 are hereby published by the Securities and Exchange Commission of Pakistan (the Commission) for information of all persons likely to be affected thereby and notice is hereby given that suggestions and comments, if any, received by the Commission within thirty days of the publication of this notification, will be taken into consideration, namely:-

DRAFT AMENDMENTS

In the aforesaid Code,-

- (1) in clause (ii) for the expression “Code of Corporate Governance, 2012”, the expression “Listed Companies (Code of Corporate Governance) Regulations, 2019” shall be substituted;
- (2) in clause (iii):
 - (a) the expression, “, in so far as applicable” shall be omitted and for the word “encourage” the word “ensure” and for the word “may” the word “shall” shall be substituted;
 - (b) in clause (a), for the word, “preferably” the word “mandatorily” shall be substituted;
 - (c) after clause (a), the following proviso shall be inserted:

“Provided that for the purposes of clause (a), an insurer shall explain the reasons, in the compliance report, if any fraction contained in such one-third number which is not rounded up as one.
 - (d) under proviso to the Explanation of clause (a):
 - (i) in the sixth bullet point, after the words, “companies or bodies”, the expression, “not being the associations licenced under section 42 of the Companies Act, 2017” shall be inserted;
 - (ii) in the seventh bullet point, after the words, “first appointment”, the expression, “, and for more than two consecutive terms in case of a public sector insurer,” shall be inserted;

(iii) after the seventh bullet point, for the expression, "Any person nominated as a director under sections 182 and 183 of the Companies Ordinance, 1984 shall not be taken to be an "independent director" for the above-said purposes." the expression, "Any person nominated as a director under sections 164 and 165 of the Companies Act, 2017, shall not be taken to be an "independent director" for the above-said purposes." shall be substituted; and

(iv) after the expression, "Professional indemnity insurance cover in respect of independent directors shall be recommended.", the following new proviso shall be inserted:

"Provided that for determining the independence of directors for the purpose of the first three bullet points of the proviso to the Explanation of clause (a) above in respect of public sector insurers, the time period shall be taken as two years instead of three years. Further, an independent director in case of a public sector insurer shall not be in the service of Pakistan or of any statutory body or any body or institution owned or controlled by the Government.

Provided further that the requirement of appointment of independent directors on the board of directors of insurer for listed insurers shall be as per the timelines given in the Listed Companies (Code of Corporate Governance) Regulations, 2019 and for unlisted insurers shall be applicable on the expiry of the current term of its board of directors."

(v) after clause (b), the following new clause (c) shall be inserted:

"(c) at least one member of the Board of Directors of the insurer is a female director."

(3) in Explanation to clause (xi), after the bullet point "Risk management", the following new bullet point shall be inserted:

"• Conflict of interest of employees of insurance companies with insurance intermediaries (insurance agents, insurance brokers and insurance surveyors) covering ownership and management interest (both direct and indirect);"

(4) after clause (xviii), the following new clause (xviii a) shall be inserted:

"Related Party Transactions

(xviii a) The details of all related party transactions shall be placed periodically before the audit committee of the company and upon recommendations of the audit committee, the same shall be placed before the Board for review and approval:

Provided where majority of the directors are interested in such transactions, the matter shall be placed before the general meeting for approval.

Provided further that in case of an insurer, where general meeting is not required to be held, and the majority of directors are interested in related party transactions, the matter shall be placed before the administrative authority of such insurer.”

- (5) after clause (xix), the following new clauses (xixa), (xixb) and (xixc) shall be inserted:

Directors Training

(xixa) Insurers are encouraged to ensure that:

- (a) by December 31, 2021 at least half of the directors on their Boards;
- (b) by December 31, 2022 at least 75% of the directors on their Boards; and
- (c) by December 31, 2023 all the directors on their Boards have acquired the prescribed certification under any director training program offered by institutions, local or foreign, that meet the criteria specified by the Commission and approved by it.

(xixb) A newly appointed director on the Board may acquire, the directors training program certification within a period of one year from the date of appointment as a director on the board:

Provided that director having a minimum of 14 years of education and 15 years of experience on the Board(s) of insurer(s) shall be exempt from the directors training program;

Provided further that a director who is exempted under the requirements of Listed Companies (Code of Corporate Governance) Regulations, 2019 shall also be exempted from the requirements of directors training program under this code.

(xixc) Insurers are also encouraged to arrange training for:

- (a) at least one female executive every year under the directors’ training program from year December 2021;
- (b) at least one head of department every year under the directors’ training program from year December 2022.

- (6) in clause (xxiv) for the expression, “section 236 of the Companies Ordinance, 1984”, the expression, “section 227 of the Companies Act, 2017” shall be substituted;

- (7) in clause (xxix):
- (a) in clause (b) for the expression, “Companies Ordinance, 1984”, the expression, “Companies Act, 2017” shall be substituted; and
- (b) in clause (c) for the words, “Listing Regulations”, the expression, “Listed Companies (Code of Corporate Governance) Regulations, 2019” shall be substituted.
- (8) in clause (xxxiii) for the expression, “Companies Ordinance, 1984”, the expression, “Companies Act, 2017” and for the words, “listing regulations”, the expression, “Listed Companies (Code of Corporate Governance) Regulations, 2019” shall be substituted;
- (9) after clause (lviii), the following new clause (lviiiia) shall be inserted:
- “(lviiiia) The internal audit function, wholly or partially, may be outsourced by the insurer to a professional services firm and in lieu of outsourcing, the insurer shall appoint or designate a fulltime employee other than chief financial officer or an employee directly reporting to the chief financial officer, as head of internal audit holding equivalent qualification prescribed under this code, to act as coordinator between firm providing internal audit services and the Board:
- Provided that while outsourcing the function, the insurer shall not appoint its existing external auditors or any of its associated company or associated undertaking, as internal auditors.”
- (10) in clause (lxvi), for the word, “powers” the word “rights” and for the expression, “section 255 of the Companies Ordinance, 1984 (Ordinance No. XLVII of 1984)”, the expression, “section 248 and 249 of the Companies Act, 2017” shall be substituted;
- (11) after clause (lxxxi), the following new clause (lxxxii) shall be inserted:
- “Offenses and Penalties**
- (lxxxii) Any failure on part of any insurer to comply with the requirements of the code is punishable under section 156 of the Insurance Ordinance, 2000.”
- (12) In Annexure I, in point 1, for the word “encourages” the word “ensures” shall be substituted and the expression “(if any)” appearing after the words “All independent directors” and the expression, “In case of unlisted insurers, if no independent director has been appointed on the Board, the reason(s) for non-appointment of the independent director should be stated.” shall be omitted; and
- (13) In Annexure I, in the table to point 1, the following new entry shall be inserted at the end:

Female Directors	
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(14) in the table given in Annexure III:

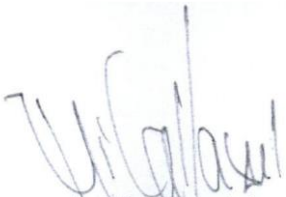
(a) in the entry for clause (iii)(a):

- (i) the expression, “, where practicable” shall be omitted; and
- (ii) for the expression “Election / Appointment / Nomination of Directors or three years from the date of coming into effect this Code, whichever is earlier”, the expression, “Election / Appointment / Nomination of Directors from the date of coming into effect of amendment to this code”

(b) after entry for clause (iii)(b), the following new entry shall be inserted:

(iii)(c)	Composition of the Board of Directors (Appointment of Female Directors)	For insurers, on which Regulation 7 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 and Regulation 23 of the Companies (General Provisions and Forms) Regulations apply, as per the timelines given therein. For insurers to which the said regulations do not apply, on the expiry of current term of board of directors.
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(Bilal Rasul)
Secretary to the Commission