

Before Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)

In the matter of Show Cause Notice issued to Dewan Farooque Motors Limited

Dates of Hearing

July 20, 2020

Order-Redacted Version

Order dated August 12, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Dewan Farooque Motors Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated March 19, 2020
2. Name of Company	Dewan Farooque Motors Limited
3. Name of Individual*	The proceedings were initiated against the directors and Chief Executive Officer of the company i.e. Dewan Farooque Motors Limited.
4. Nature of Offence	In view of alleged violations of Regulation 6 & Regulation 7 of the Listed Companies (Code of Corporate Governance) Regulation, 2019 read with section 512 of the Companies Act, 2017.
5. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have gone through the fact of case, relevant provisions of the law and the arguments set forth before me during the hearing. It is evident that the Company has contravened the provisions of Regulation 6 and Regulation 7 of the Regulations by appointing only one independent director on its Board and failing to appoint a female director therein, respectively. The Authorized Representative also admitted the default and requested for the compassionate view.</p> <p>2. I would like to add here that the Code of Corporate Governance aims at strengthening governance structures, bringing consistency in the corporate practices and promoting transparency through enhanced disclosure requirements laying down certain significant functions like safeguarding the interest of all stakeholders, particularly the minority holders, harmonizing the conflicting interest of the stakeholders, analyzing the performance of management, mediating in situations like the conflict between management and the shareholders interest. Under the 2019 Code, the roles and responsibilities of directors are more explicit and enhanced, encouraging independent decision-making, and strengthening the mechanism for transparency and accountability. It is imperative to state that the purpose of inclusion of independent directors on Boards is to provide strategic guidance, unbiased and objective judgment which is independent of view of representatives of controlling interest/shareholders. The Regulations thus stipulate the Board comprises</p>

higher of two or one third of directors as independent directors. The mode of inclusion of such independent directors is also prescribed as through elections. It is, therefore, important that the intent and legal form of statute is appropriately complied by the Board of Directors at the relevant time enabling inclusion of independent directors.

The key purpose behind appointing independent directors to the Board is to ensure objectivity in order to evaluate the performance and wellbeing of a company without having any conflict of interest or undue influence. Independent directors must discharge their duties and try to bring transparency in the working mechanism of the company. Since shareholders, the minority ones in particular, usually not equipped to look into those affairs of the company, look forward to independent directors to provide such transparency. When the Board is taking any decisions which would adversely affect the rights of the shareholders or creditors or employees, the independent directors must have a significant role in such decisions acting in the best interest and welfare of the stakeholders.

For maintaining the unbiased and objectivity of the decisions taken by the Board, it is necessary to take into consideration the views of all directors within the Board, hence, the Regulations provide a basis for the composition and structure of the Board. By regulating the composition and structure of the Board, the objectivity and soundness of the decisions taken by the Board are maintained. It also ensures that no single director can dominate in such decision-making process, thus reducing the chances of arbitrariness of the decisions. This can be achieved by including an adequate number of non-executive members with appropriate competencies who are independent.

3. It is pertinent to mention that the Board of Directors play important roles in determining a company's strategic directions and disclosure decisions. Corporate boardroom gender diversity by virtue of including women into the Board, enables companies to tap into a pool of talent which women can contribute. A diverse group of decision makers can enhance competitiveness of a company in an industry and produce effective decisions for it as the inclusion of non-traditional members in a board can tackle the issue of group-think that normally happens in a homogeneous board. The inclusion of women directors on the Board can broaden its perspective to facilitate decision making and respond to demands of a diverse group of stakeholders. Corporate board gender diversity is positively associated with the extent of sustainability disclosure of companies. By having diversity in boardrooms, companies can tap into more resources such as having more external networks, different sets of skills, expertise and experiences of female directors which adds value to the company.

Diversity of memberships in a board enable companies to address specific issues faced by different stakeholder groups and respond to such demands accordingly. In addition, female directors on a Board can better manage and monitor management as they normally will bring different

	<p>sets of skills, experience and expertise which can help to enhance the governance. Board gender diversity have demonstrated to provide critical external resources to a company as the involvement of female directors in decision making positions contribute valuable insights to management, unique perspectives into setting corporate strategy and enhancing corporate reputation in the society.</p> <p>4. In view of the preceding facts, I have come to the conclusion that the provisions of Regulation 6 and Regulation 7 of the Regulations have been contravened and the Respondents are liable to penal action under Regulation 37 of the Regulations as a result of appointing only one independent director to the Company's Board and failing to appoint a female director therewith. Therefore, in exercise of the powers conferred under sub-section (2) of Section 512 of the Act, I hereby impose a penalty of Rs. 25,000/- (Rupees twenty five thousand only) each on Chairman and Chief Executive of the Company. I also warn all Respondents to be careful in the future and ensure meticulous compliance of the law in letter and spirit.</p>
6. Penalty Imposed	Penalty aggregating Rs. 50,000/- (Rupees fifty thousand only) was imposed on Chairman and Chief Executive Officer and remaining respondents were warned to ensure compliance of law in future.
7. Current Status of Order	No Appeal has been filed by the respondents.

Redacted version issued for placement on website of the Commission.