



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

2009 Review of the implementation status of corporate governance disclosures: case study Pakistan

**Report by the UNCTAD secretariat and
the Institute of Chartered Accountants of Pakistan**

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Foreword

I am pleased to present the twenty-seventh booklet under the Members' Information and Education Series (MIES-27) on the subject of **“2009 Review of the implementation status of corporate governance disclosures: case study Pakistan”**.

This case study views corporate governance disclosures in Pakistan from two perspectives: a brief overview of key developments in Pakistan relating to corporate governance disclosures; and a resulting review of disclosure practices among companies on the Karachi Stock Exchange (KSE) 30 Index. The study was undertaken by The Institute of Chartered Accountants of Pakistan (the Institute) in cooperation with the Inter-governmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) of the UNCTAD Secretariat.

The World Bank report “Getting Finance in South Asia 2009” has ranked Pakistan first in the areas of corporate governance, performance and efficiency in the South Asian region. This is a matter of great national pride and a manifestation of the efforts of all those involved in the development and implementation of the Code of Corporate Governance in Pakistan. In order to bring more transparency to corporate affairs and governance the Securities and Exchange Commission of Pakistan (SECP) has established the Code of Corporate Governance on the recommendations of the Institute. The Institute is also a founder member of the Institute of Corporate Governance established to promote good corporate governance practices in Pakistan.

Good corporate governance is essential to establish an attractive investment climate characterized by competitive companies and efficient financial markets. This is particularly true in a world where enterprises compete on a global stage for investment capital.

The Institute is actively promoting good corporate governance disclosures by publishing informative material and conducting workshops and holding conferences on the subject.

This booklet may also prove useful to unlisted public interest entities which do not come under the domain of the Code of Corporate Governance to establish a self regulated governance structure.

I would like to thank Mrs. Saira Nasir, a Fellow member of the Institute for her efforts in developing the case study and the editorial team at the Institute for their assistance and support in publishing it. We seek your valuable comments on this booklet.

Abdul Rahim Suriya
President

February 4, 2010



Executive summary

This report is a case study of corporate governance disclosure in Pakistan. The study employs the benchmark of good practices in corporate governance disclosure developed by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). This benchmark consists of 52 disclosure items covering five subject areas. The sample of enterprises selected for the study is composed of the enterprises that make up the 'Karachi Stock Exchange 30' (KSE 30), a popular index used to measure the performance of the Pakistani capital market. The study consists of two parts: (a) a brief overview of key developments in Pakistan related to corporate governance disclosure, and; (b) the presentation of the results of the review of disclosure practices among the KSE 30.

This study finds the average KSE 30 enterprise disclosing about half of the items in the ISAR benchmark. Twenty-two of the items in the ISAR benchmark were disclosed by more than two thirds of the enterprises in the study, and 10 of the items in the ISAR benchmark were disclosed by all of the KSE 30 companies. A number of items in the ISAR benchmark were also subject to low rates of disclosure, with 10 items not disclosed by any of the companies in the study. The absolute number of disclosure items found for each company ranged from 21 to 34.

The study concludes that while the KSE 30 has relatively good rates of disclosure for some topics, questions exist about the overall compliance of many companies with the disclosure requirements embodied in Pakistani law. Policy options discussed include: a) increasing the number of explicit disclosure items that might formerly have been implicitly disclosed using general compliance statements; and, b) strengthening the capacity building and training activities targeted at Directors to raise awareness about disclosure obligations and build the technical capacities necessary for producing high quality corporate governance disclosure.



Introduction

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has been working in the area of corporate governance since 1989 (E/C.10/A.C.3/1989/6). During the twenty-first session of ISAR in 2004, the group of experts requested the development of an annual study to assess the state of reporting on corporate governance. This resulted in a series of annual reviews and individual country case studies presented at subsequent ISAR sessions. These annual reviews examined corporate governance disclosure practices around the world, with a special focus on emerging markets. The studies were facilitated by the development of ISAR's benchmark of good practices in corporate governance disclosure. This benchmark consists of over fifty individual disclosure items and is explained in detail in the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure* (UNCTAD/ITE/TEB/2006/3). This publication was the outcome of ISAR deliberations, particularly those of the twenty-second session. At the twenty-fifth session, the Group of Experts requested that UNCTAD continue to carry out such studies, in partnership with local institutions wherever possible, and with a focus on providing practical information to policy makers, investors and other stakeholders.
2. This report is a case study of corporate governance disclosure in Pakistan. It was conducted in cooperation with the Institute of Chartered Accountants of Pakistan.¹ The study utilizes the ISAR benchmark and the general methodology employed by earlier corporate governance country case studies and annual reviews conducted by the UNCTAD secretariat.²
3. The objectives of this study are to: (a) provide a brief overview of key developments in Pakistan related to corporate governance disclosure; and (b) present and analyse the results of the review of corporate disclosure practices among leading enterprises in Pakistan. The overview of recent developments is provided in chapter I, which also examines the statutory framework in Pakistan related to corporate governance and rules and regulations related to corporate practices. Chapter II presents and analyses the results of the review, looking in detail at disclosure rates for each item in the ISAR benchmark.
4. The findings of this study show that 22 of the indicators recommended in UNCTAD's *Guidance on Good Practices in Corporate Governance Disclosure* are reported by two-thirds or more of the enterprises in the study, and 10 of the items are disclosed by all of the enterprises in the study. A number of recommended items in the ISAR benchmark were also subject to low rates of disclosure, with 10 items not disclosed by any of the companies in the study. The absolute number of disclosure items found for each company ranged from 21 to 33.
5. The study concludes that while the KSE 30 has relatively good rates of disclosure for some topics, questions exist about the overall compliance of many companies with the disclosure requirements embodied in Pakistani law. Policy options discussed include: a) increasing the number of explicit disclosure items that might formerly have been implicitly disclosed using general compliance statements; and, b) strengthening the capacity building and training activities targeted at Directors to raise awareness about disclosure obligations and build the technical capacities necessary for producing high quality corporate governance disclosure.

1 This document was prepared and edited by the UNCTAD secretariat on the basis of research conducted by Ms. Saira Nasir, of the Institute of Chartered Accountants of Pakistan.

2 See for example: *2007 Review of the implementation status of corporate governance disclosures: case study Egypt* (TD/B/COM.2/ISAR/CRP.7) and *2008 Review of the implementation status of corporate governance disclosures: an examination of reporting practices among large enterprises in 10 emerging markets* (TD/B/C.II/ISAR/CRP.1), both of which are available at www.unctad.org/isr

I. Overview of developments in corporate governance disclosure in Pakistan

A. Overview of statutory framework in Pakistan

6. The concept of corporate governance has become increasingly important in Pakistan in recent years. The subject has attracted greater attention from policy makers who are reforming its arrangements across the private and public sector.
7. The main law that determines most aspects of the corporate legal framework is the Companies Ordinance of 1984. Below is an overview of this law and other major laws or codes affecting the governance of companies in Pakistan:
 - (a) *Companies Ordinance 1984*: All financial statements are prepared in accordance with the requirements of the Companies Ordinance, 1984 and the IAS/IFRS as applicable in Pakistan.
 - (b) *Securities and Exchange Ordinance, 1969*: The Ordinance provides for the protection of investors, regulates markets and provides guidance in respect of dealing with securities.
 - (c) *Income Tax Ordinance*: The Ordinance deals with taxation aspect of the companies.
 - (d) *Listing Regulations*: These regulations are issued by the Stock Exchanges (Pakistan has three stock exchanges) and are applicable to all companies listed on the exchanges.
 - (e) *Central Depository Act, 1997*: The act ensures smooth and risk free settlement of security transactions. The Act makes provision for the establishment and operation of book -entry systems for transfer of securities by central depository companies.
 - (f) *Code of Corporate Governance, 2002*: It establishes a framework of good corporate governance whereby listed companies are managed in compliance with best practices and in exercise of the powers conferred by the Securities and Exchange Ordinance, 1969. The Code calls on all listed companies to publish and circulate a statement along with their annual reports to set out the status of their compliance with the best practices of corporate governance set out above. The Code further calls on listed companies to ensure that the statement of compliance with the best practices of corporate governance is reviewed and certified by statutory auditors, where such compliance can be objectively verified, before publication by listed companies.
 - (g) *Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008*: The Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance 2002 (Takeovers Ordinance) seeks to provide a fair, transparent and efficient system for acquisition of substantial voting shares and takeovers of listed companies in the interest of investors.

B. Development of corporate governance in Pakistan

1. The Pakistani Code of Corporate Governance and regional efforts

8. One of the main developments in corporate governance in Pakistan has been the formulation of a Code of Corporate Governance. The All Pakistan Chartered Accountants' Conference held in December 1998 resolved to take an initiative to evolve and recommend a Code of Good Corporate Governance. This

endeavour sought to build on comprehensive Codes developed outside of Pakistan, by developing a new code tailored to the circumstances of the Pakistani economy.

9. For this purpose, the Institute of Chartered Accountants of Pakistan (ICAP) constituted a committee comprising its elected past Presidents, Presidents of the three stock exchanges in Pakistan, President of the Institute of Cost and Management Accountants of Pakistan, and a nominee of the Securities and Exchange Commission of Pakistan (SECP) to undertake the task of formulating recommendations for the Code. After due deliberations extending to over eighteen months between 1998 and 1999 and consideration of the responses, observations and comments from a large number of institutions and representative bodies and informed professionals and intellectuals, this ICAP committee formulated a draft Code of corporate governance in Pakistan which was exposed by ICAP to its members and placed on the ICAP website.
10. The then President of ICAP in consultation with the Chairman SECP constituted a Task Force to assist the SECP to review the recommendations arising from discussion, held subsequently with other institutional bodies. The exposure and the consultative process continued for a period of over six months. The Task Force, after due consideration of various comments and observations and after consultations with the SECP developed a Code of Corporate Governance. The SECP introduced the Code in March 2002 and it was subsequently incorporated in the Listing Regulations of the Pakistani Stock Exchanges, applicable to all listed companies.
11. Developments in Pakistan also take place within the context of broader regional efforts to harmonize corporate governance practices in South Asia. The South Asian Federation of Accountants (SAFA) conducted a project on developing best practices on corporate governance supported by a small group composed of representatives from the member bodies: Bangladesh, India, Nepal, Pakistan, and Sri Lanka (the SAFA region). The Group was assigned the task to carry out a comparative study of the existing corporate governance regimes in each member country, identify the areas that need further improvement and develop best practices that should be followed by listed entities and other public interest entities (such as banks, insurance companies and large-sized entities). The aim was to develop broad based principles for the governance of corporate entities, considering international best practices as well as the particular business environment in the SAFA region.

2. Awareness and training activities

12. A number of institutions in Pakistan have engaged in awareness and training activities to strengthen corporate governance and disclosure in the country. ICAP has taken several steps in its effort towards improving good corporate governance disclosure. For example, to promote accountability and transparency through the publication of information which is factual, transparent and reader friendly, ICAP along with the Institute of Cost and Management Accountants of Pakistan (ICMAP), began recognizing best practices among companies. In 2005, public sector entities were evaluated for the first time for the Best Presented Report Awards. A joint committee, of ICAP and ICMAP has also been organizing the competition for Best Corporate Governance Awards.
13. The Pakistan Institute of Corporate Governance (PICG) is charged with promoting good corporate governance practices in Pakistan. PICG is involved in conducting training and education, creating awareness, undertaking research, and publishing guidelines and other resource material. It provides a central forum in Pakistan for discussion on corporate governance.

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14. Corporate governance is crucial to enterprise development, and Directors are ultimately responsible for corporate governance, therefore PICG encourages all directors to remain current in the knowledge of rules, regulations and best practices. To achieve this objective it offers a Board Development Series (BDS) Directors education program. The certificate is internationally accredited as the Director Education Program by Risk Metrics Group, a leading shareholder services provider and corporate governance rating firm based in the United States. The BDS allows due recognition by rating companies when evaluating the participant's organization. Making the acquisition of this certification mandatory for Directors in Pakistan is currently under consideration.

3. Strengthening corporate governance in the banking sector

15. Multiple reforms in Pakistan have sought to improve the corporate governance practices of banks. The fundamental change targeted by these reforms is the effectiveness of the Board. The implementation of 'Fit and Proper' criteria, for example, is aimed at ensuring that Board members are well equipped to carry out their responsibilities. The criteria are also a measure aimed at excluding unscrupulous individuals from being elected to the Board of Directors.
16. The State Bank of Pakistan (SBP) has played a particularly strong role in promoting good corporate governance in the financial industry. Being the regulator and supervisor of banks and other financial institutions, the SBP has sought to implement a comprehensive corporate governance regime for banks, driven by a robust legal and regulatory framework, risk-based supervision and over-arching banking sector reforms, notably, privatization, liberalization and consolidation. The SBP also requires banks to appoint auditors from a panel of pre-approved auditors maintained by the SBP. The objective is to ensure the credibility of the audited financial statements of banks.

4. Corporate governance in family owned enterprises

17. As in many other emerging markets, family ownership of listed companies is a common feature of domestic capital markets in Pakistan. Powerful families directly or indirectly (through holding companies or other structures) continue to own a high percentage of the largest companies in the country. Family ownership of large enterprises can pose a number of challenges for corporate governance and disclosure. Family members appointed to the Board of Directors can sometimes lack sufficient qualifications and experience outside of the family business. Informal hierarchies within family units can sometimes conflict with formal structures of management and governance. And family cartels in a corporation can provide an opportunity for collusion, which can in turn undermine the rights of minority shareholders. To address these and other issues arising out of family ownership, PICG together with CIPE (Center for International Private Enterprise) and ICAP have developed the Corporate Governance Guide for Family Owned Companies to help directors of large family owned companies.
18. High rates of family controlled enterprises, and the complex range of relations between controlling families that can result from marriage, lead to specific challenges for identifying and dealing with related party transactions. Recent changes in the Listing Regulations of Pakistan have made it a must that transactions with related parties have to be placed before the Board of Directors for review and approval. Details of the same have to be placed before the Audit Committee. The related party transactions which are not executed under 'arm's length' pricing will also be reviewed separately at each Board meeting, and the Board shall approve the pricing methods.

C. Ongoing efforts

19. Good corporate governance is essential in establishing an attractive investment climate characterized by competitive companies and efficient financial markets. It is thus imperative that Pakistan's corporate sector develops and implements good governance practices, in order to boost economic growth and development. This is particularly true in the midst of a globalized world, wherein enterprises compete on a global stage for investment capital.
20. Pakistan's developments in the area of corporate governance and capital market development have been recognized by the World Bank in its research. The World Bank's 2007 report on Doing Business in South Asia observes that "Pakistan provides relatively strong protections for minority shareholders against the misuse of corporate assets." The report ranks Pakistan 19th out of 175 countries on the issue of protecting investors. The World Bank in its report Getting Finance in South Asia 2009 has ranked Pakistan first among five south Asian countries in the area of corporate governance, performance and efficiency. The report, however, also highlights a number of areas which require further attention, including: greater transparency and disclosure; greater accountability; further disclosure to beneficial ownership; safeguards on stakeholders rights; and further improvements to the responsibilities of the Board.
21. As noted earlier, one of the major developments in corporate governance in Pakistan has been the development of the Code of Corporate Governance. However, professionals in Pakistan recognize that that no code or set of good practices is complete or perfect and the Code of Corporate Governance in Pakistan is no exception. Many lessons have been learnt since the adoption of the Code in 2002 regarding its implementation in Pakistan's business environment. These lessons are now being incorporated into a revision of the Code. PICG constituted a task force for conducting a review of the Code in the conceptual context and its implementation in practice in the light of feedback from relevant stakeholders. It is intended that the revised Code will address the ground realities of the corporate environment in Pakistan and, in addition to that, facilitate the alignment of corporate governance practices in Pakistan with global best practices.
22. Strengthening the Code must also be complemented by strengthening the skills of Directors and other key actors in corporate governance. A major barrier to improving corporate governance practices in Pakistan has traditionally been the lack of qualified professionals to help with the implementation of corporate governance practices. In this context, the on going training activities of a number of Pakistani institutions is critically important and it is expected that the revised Code will provide the basis for ongoing training activities in the country.

II. Status of implementation of good practices in corporate governance disclosure in Pakistan

A. Background and methodology

23. The purpose of this study is to evaluate the level of implementation of good practices in corporate governance disclosure in Pakistan. The reader should note that, as in UNCTAD's previous annual reviews and country case studies on this subject, this study is not intended as a measure of the quality of the disclosure of individual items, rather it is a measure of the existence of the selected disclosure items. The study was undertaken by the Institute of Chartered Accountants of Pakistan in co-operation with the

UNCTAD secretariat. The study examines the disclosure practices of the companies of the Karachi Stock Exchange 30 (KSE 30) a popular equity index in Pakistan. The disclosure made by these companies was compared with the ISAR benchmark of 52 disclosure items. This benchmark is based on the recommendations of the Group of Experts found in the UNCTAD publication Guidance on Good Practices in Corporate Governance Disclosure. The 52 disclosure items cover the following five broad categories:

- (a) Ownership structure and exercise of control rights;
- (b) Financial transparency and information disclosure;
- (c) Auditing;
- (d) Corporate responsibility and compliance; and
- (e) Board and management structure and process.

24. The 52 indicators were tested against the actual reporting practices of 30 leading enterprises from Pakistan. The sample used in this study is comprised of the 30 companies that make up the Karachi Stock Exchange 30 (KSE 30). The KSE 30 index is designed to provide investors with a general indication of the performance of large capitalization companies within Pakistan's equity market. As indicated in table 1 below, the companies in the KSE 30 index belong to a range of industrial sectors.

Table 1. Distribution of the KSE 30 enterprises by sector

Sector	Number of Companies
Bank	8
Oil and Gas	5
Financial Service Provider	2
Fertilizer	2
Cement	2
Securities	2
Textile	2
Insurance	2
Paper	1
Information Technology	1
Chemical	1
Communication	1
Power Generation	1

25. KSE 30 companies typically represent the largest enterprises in Pakistan, making the most significant contribution to the country's economy. Table 2 provides an overview of the aggregate financial data for the KSE index.

Table 2. KSE 30 Financial Overview
(Million Pakistani Rupee, 2007 data)

Description	Average	Maximum	Minimum
Sales	478'506'542	12'308'604'885	927'8 10
Assets	1'995'504'856	33'696'1 12'116	1'593'096
Liabilities	987'96 1 '886	24' 127'735'334	299'935
Equity	982'344'9 16	1 8'074'588'378	293'073
Net Income	220'443'623	3'934'880'345	355'120

Note: Using 2007 average exchange rate, one US dollar equals 60.58 Pakistani Rupees.

26. The study was carried out by reviewing the annual reports and other publicly available company disclosures. The data in this report is based primarily on the information available from 2007 annual reports; during the data gathering phase of this project, 2008 reports were not yet widely available.

B. Main outcomes of the study: overview of all disclosure items

27. Table 3 provides an overview of the corporate governance disclosure items in the ISAR benchmark. The disclosure items are organized into five thematic groups. Next to each disclosure item is the number of KSE 30 companies found to be disclosing this item. It is again noted that the findings below make no indication of the quality of disclosure found among the enterprises, only whether or not some disclosure exists for each of the disclosure items listed below.

Table 3. Main Findings of review of KSE 30 corporate governance disclosure

Disclosure items by category	Number of enterprises disclosing this item (max. = 30)
Ownership structure and exercise of control rights	
Ownership Structure	30
Process for holding annual general meetings	30
Availability and accessibility of meeting agenda	29
Control and corresponding equity stake	28
Control structure	26
Changes in shareholdings	21
Control rights	1
Rules and procedures governing the acquisition of corporate control in capital markets	0
Anti-Takeover measures	0
Financial transparency	
Financial and operating results	30
Critical accounting estimates	30
Nature, type and elements of related - party transactions	30
Board's responsibilities regarding financial communications	30
Company objectives	23
The decision making process for approving transactions with related parties	16
Impact of alternative accounting decisions	6
Rules and procedures governing extraordinary transactions	2
Auditing	
Duration of current auditors	30
Auditors' involvement in non-audit work and the fees paid to the auditors	30
Process for appointment of external auditors	29
Board confidence in independence and integrity of external auditors	29
Process for interaction with internal auditors	21
Internal control systems	9
Process for appointment of internal auditors / Scope of work and responsibilities	5

Disclosure items by category	Number of enterprises disclosing this item (max. = 30)
Process for interaction with external auditors	3
Rotation of audit partners	0
Corporate responsibility and compliance	
A code of ethics for the Board and waivers to the ethics code	30
A code of ethics for all company employees	29
Policy and performance in connection with environmental and social responsibility	19
Impact of environmental and social responsibility policies on the firm's sustainability	19
The role of employees in corporate governance	4
Policy on "whistle blower" protection for all employees	0
Mechanisms protecting the rights of other stakeholders in business	0
Board and management structure and process	
Determination and composition of directors' remuneration	30
Composition of board of directors (executives and non-executives)	29
Duration of director's contracts	29
Independence of the board of directors	25
Materials interests of members of the board and management	16
Governance structures, such as committees and other mechanisms to prevent conflict of	14
Composition and function of governance committee structures	14
Risk management objectives, system and activities	14
Role and functions of the board of directors	13
Qualifications and biographical information on board members	9
Types and duties of outside board and management positions	9
Number of outside board and management position directorships held by the directors	7
Professional development and training activities	3
"Checks and balances" mechanisms	1
Existence of plan of succession	0
Compensation policy for senior executives departing the firm as a result of a merger or	0
Existence of procedure(s) for addressing conflicts of interest among board members	0
Availability and use of advisorship facility during reporting period	0
Performance evaluation process	0

28. As shown in table 3 above, the group with the highest average rate of disclosure is Financial Transparency, followed by Ownership Structure and Exercise of Control Rights. The weakest area of disclosure proved to be the Board & Management Structure and Process. Disclosure rates for the category of auditing stand out in particular as being relatively strong. A consistent finding of UNCTAD's annual corporate governance reviews has been that the category of auditing is typically subject to the lowest rates of disclosure among emerging market enterprises around the world. The situation in Pakistan is different, however, where the category is subject to comparatively higher disclosure rates.

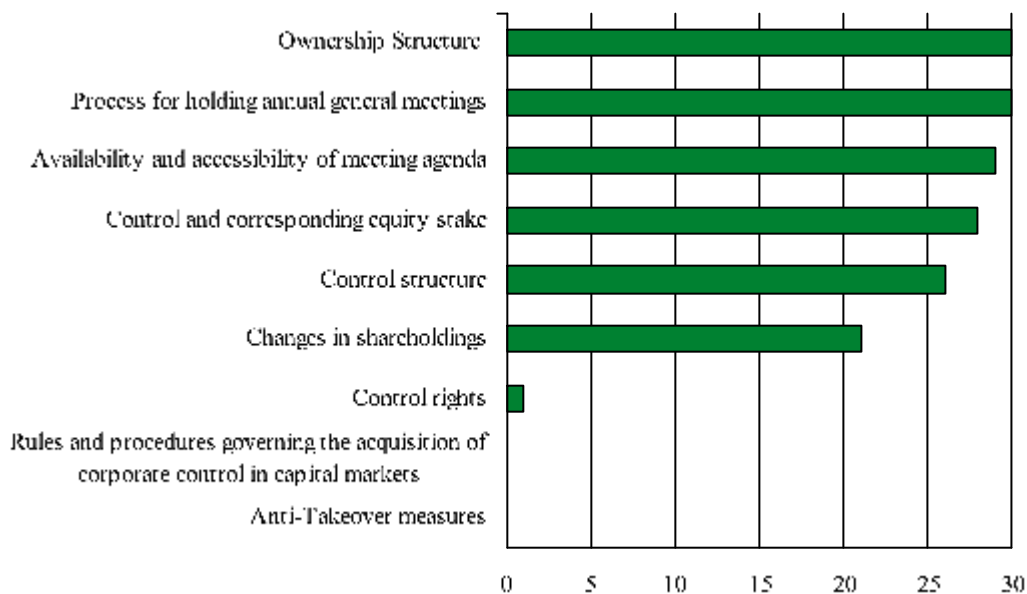
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29. The average KSE 30 enterprise discloses about half of the items in the ISAR benchmark. Twenty-two of the items in the ISAR benchmark were disclosed by more than two thirds of the enterprises in the study, and 10 of the items in the ISAR benchmark were disclosed by all of the KSE 30 companies. A number of recommended items in the ISAR benchmark were subject to low rates of disclosure, with 10 items not disclosed by any of the companies in the study.
30. To put these findings into the Pakistani context, it is worth noting that a number of the disclosure items in this study that are not recognized as 'disclosed' might nevertheless be said to be the subject of an indirect form of disclosure. Many of these items fall under the mandatory compliance requirement of Pakistan's Code of Corporate Governance, and companies disclose their compliance with this Code through a statement in their annual reports. Furthermore, the external auditors are required to give their opinion on the statement of compliance and identify any deficiencies in compliance. Therefore, many companies appear to believe that there is no need to disclose explicit information about these things because they are covered by the general compliance statement. However, for those not familiar with the Code (such as foreign investors) and for those items in the Code for which compliance might take different forms, the use of general compliance statements is not a sufficiently informative substitute for explicit disclosure. While the Code indicates in a general way what should happen, the purpose of corporate disclosure is to explicitly report what actually happened. The disclosure of actual practices is more relevant for an enterprise's stakeholders, as it assures, among other things, that the enterprise (at a minimum) meets the relevant rules and regulations. It also provides stakeholders with information on company specific practices, which may differ from other companies while still falling within the general framework of the Code.
31. The above findings are subject to additional analysis in the sections below.

1. Ownership structure and exercise of control rights

32. As noted above, disclosure items from the ownership structure category were among the most prevalent within the reports of the KSE 30 companies. Figure 1 below provides a graphical view of the disclosure items in this group. Two of the items are disclosed by all of the companies in the study, and two of the items are not disclosed by any of the companies. Four items are commonly reported, with more than 20 of the 30 companies disclosing them.
33. The two items not disclosed by any of the companies were: "Rules and procedures governing the acquisition of corporate control in capital markets" and "Anti-takeover measures". Lack of disclosure on the first item, rules and procedures, may result from companies relying on widespread awareness of how these procedures are defined under Pakistani law. The failure to disclose this information, however, increases the information acquisition costs of foreign investors and decreases awareness of any company specific practices that exist within the legal framework. Regarding the disclosure of anti-takeover measures, compliance with procedure laid down in existing Pakistani law requires that public disclosure is made only in the event of an acquisition attempt. Such conditional disclosure, however, does not provide enough advance information to investors and other stakeholders to allow them to forecast company performance under various scenarios (including takeover scenarios). UNCTAD's CG Guidance recommends that companies disclose whether or not anti-takeover measures exist, and the nature of those measures, regardless of whether or not the company faces an imminent takeover attempt.
34. The disclosure item on control rights was also subject to extremely low levels of disclosure (only one company in the KSE 30 disclosed this item). To put this into the Pakistani context, control over a company

is, under Pakistani law, directly linked to the equity stake. Under the takeover/substantial acquisition law, control is defined as the right to appoint a majority of directors or to control management or policy decision by virtue of shareholding, management rights, shareholding agreement, voting agreement or otherwise. Pakistani companies may therefore believe that an assessment of the control rights can be established through the pattern of shareholding disclosed in the annual reports. Any significant change in ownership or control is also required to be made public henceforth under the Code of Corporate Governance through notices to the Stock Exchanges and Securities and Exchange Commission of Pakistan. UNCTAD’s CG Guidance, however, recommends that explicit description of control rights be made in a company’s annual report, to ensure that stakeholders are aware whether or not any special control rights exist (e.g. government ownership of special shares, or special legal restrictions on control).

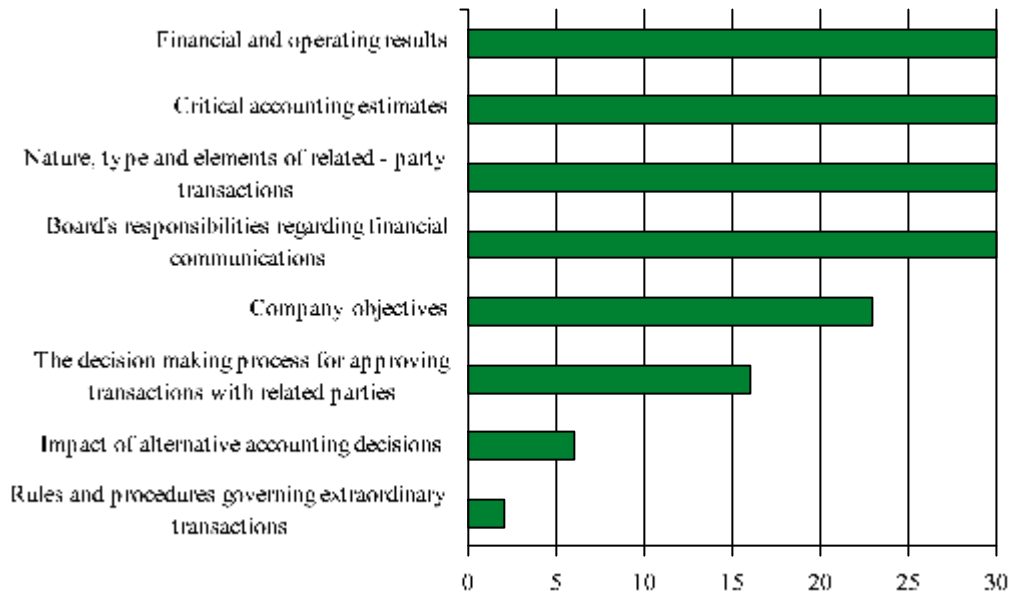
Figure 1. Ownership structure and exercise of control rights
(Number of KSE 30 enterprises disclosing each item)



2. Financial transparency

35. The most prevalent group of disclosure items was financial transparency. However, only six companies disclosed information on the “impact of alternate accounting decisions” and only four companies disclosed information pertaining to “rules and procedures governing extraordinary transactions”. Disclosing the financial impact of alternative accounting decisions with respect to accounting policy options would provide users of financial statements with a better picture of the financial performance and position of the reporting entity. The lack of disclosure of this item by many companies may indicate the need for further work in Pakistan on providing users of financial statements with further insights into management’s decision making among alternative accounting policy options. The rules and procedures governing extraordinary transactions are covered by the Code of Corporate Governance and Pakistani law. The lack of disclosure of this item by most of the KSE 30 companies in this study may result from the assumption that these rules are sufficiently well defined and accessible in the Code and Pakistani law. As noted earlier, however, general rules and laws are not an adequate substitute for explicit descriptions of company specific practices.

Figure 2. Financial transparency
(Number of KSE 30 enterprises disclosing each item)



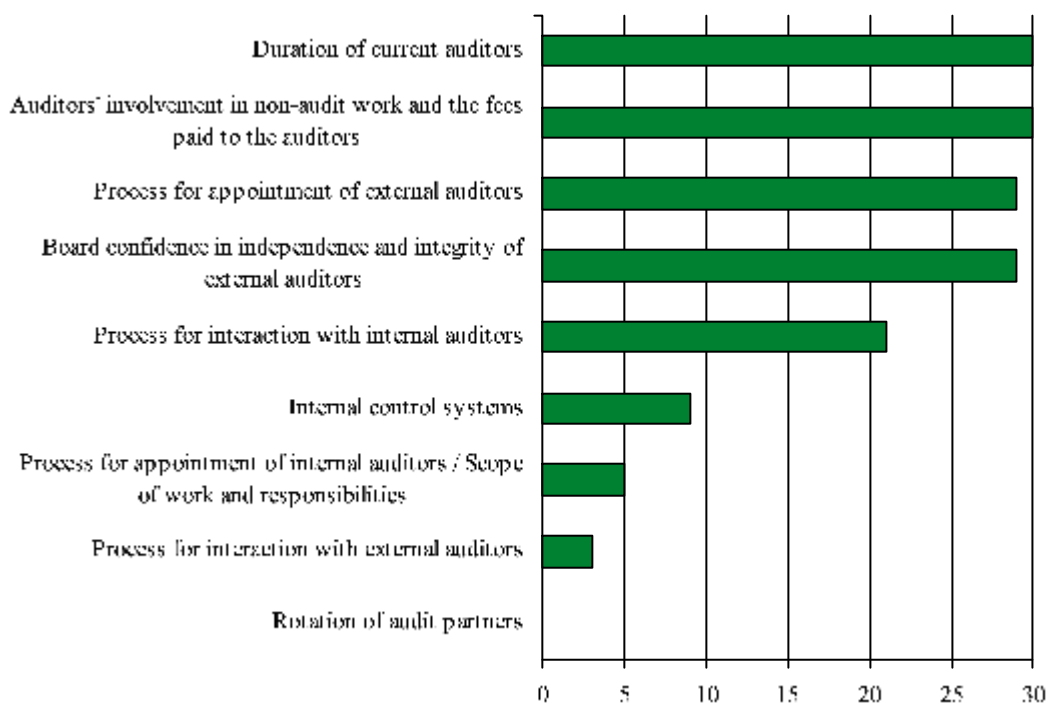
3. Auditing

36. On the subject of auditing, five of the nine items were subject to relatively high rates of disclosure. Four of the items, however, were subject to low rates of disclosure; these items are discussed in more detail below.
37. The disclosure item “process of interaction with external auditors” was disclosed by less than five of the KSE 30 companies. The process that this disclosure item refers to is generally straightforward in most Pakistani companies. The Audit Committee of every listed company is required to meet with the external auditors without the CFO and the head of internal audit being present, at least once a year. The Management Letter is to be written by the external auditors to the Board of Directors within 30 days from the date of the audit report and serves as a useful source of communication between the external auditors and the Board.
38. The disclosure item “process for appointment of internal auditors / scope of work and responsibilities” was also subject to a very low level of disclosure, with only five companies reporting information on this item. The process that this disclosure item refers to is also generally straightforward in most Pakistani companies. The Code of Corporate Governance states that appointment, remuneration and terms and conditions of employment of the head of internal audit of a listed company shall be determined by the CEO with the approval of the Board of Directors.
39. Both of the above disclosure items are examples of processes that are generally well understood and regulated in Pakistan, even if they are not widely reported on by enterprises. They are also examples of items that might be considered to be the subject of indirect disclosure via the statement of compliance with the Code of Corporate Governance.
40. The disclosure item on internal control systems was found in less than one third of the companies’ reports.

The directors of listed companies are entrusted with the important responsibility of making sure that a sound internal control system is in place. A disclosure on the subject should normally be given in the Directors' report or in the statement of compliance with the Code of Corporate Governance in the annual report. Disclosure on this subject should normally also be reviewed by the external auditors to ensure consistency with their audit results.

41. Information on the rotation of audit partners was not disclosed by any of the companies in the study. This result, however, must be considered in the Pakistani context where listed companies are required, at a minimum, to rotate the audit engagement partner after every five years. The low level of disclosure for this item may be a consequence of rules in Pakistan that make the change in audit partner every five years mandatory; thus many companies may treat such rotation as assumed knowledge and not disclose this information. Or companies may assume that the issuance of compliance statement vis à vis the Code provides indirect disclosure of this item. It should also be noted that all of the companies in the study did disclose the duration of current auditors.

Figure 3. Auditing
(Number of KSE 30 enterprises disclosing each item)



4. Corporate responsibility and compliance

42. The category of corporate responsibility and compliance had a mix of disclosure rates, with two items disclosed by all or nearly all enterprises, two items disclosed by at least half of the enterprises and three items that were disclosed by less than five or no enterprises. Some of this disclosure is driven directly by the Code of Corporate Governance in Pakistan and should be viewed in that context.

43. A code of ethics for the Board and a code of ethics for all company employees appear to be commonplace in Pakistan and are regularly disclosed by most of the companies in the study. Information on 'policy and performance in connection with environmental and social responsibility' and 'impact of environmental and social responsibility on the firm's sustainability' is reported by more than half of the companies in the study. The disclosure of these items may stem from the Code under which the Board of Directors of listed companies are to adopt an overall corporate strategy for the company which includes policies on health, safety and environment.
44. Information on the role of employees in corporate governance is disclosed by less than five of the companies in the study. In UNCTAD's annual studies on corporate governance disclosure, it is found that this information is rarely disclosed except in countries where employees have legally proscribed roles in corporate governance, such as an employee representative on the Board of Directors.
45. None of the companies in the study disclosed information on a 'whistle blowing' or 'speak up program'. Similarly there is no disclosure on the subject of protecting the rights of other stakeholders (in addition to shareholders).

Figure 4. Corporate responsibility and compliance
(Number of KSE 30 enterprises disclosing each item)



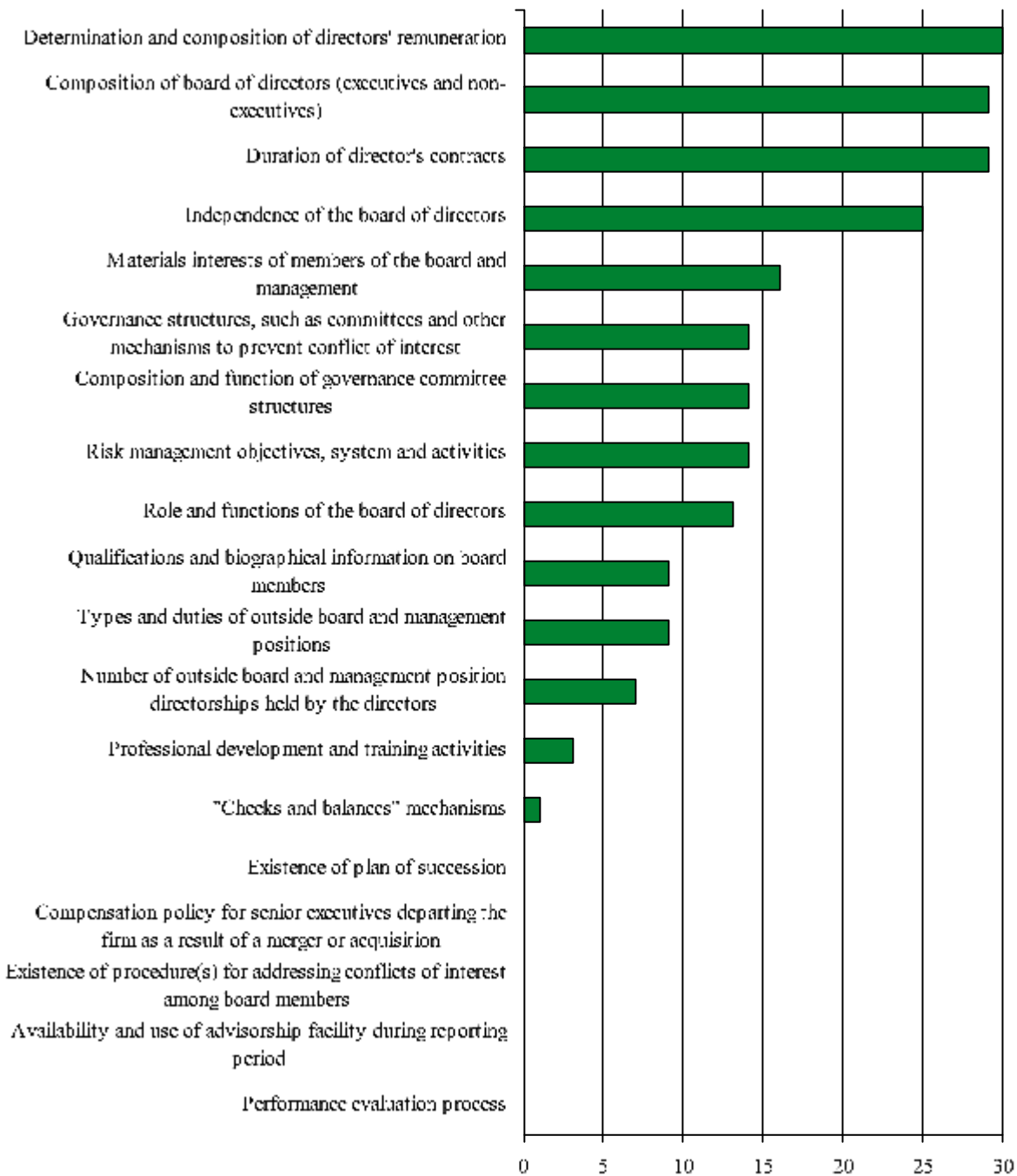
5. Board and management structure and process

46. Many of the items in the disclosure category 'board and management structure and process' were subject to low levels of disclosure among the KSE 30 companies. While four of the 19 disclosure items in this category were found in more than two thirds of company reports, 14 of the items were found in less than half, with five the items not found in the reports of any KSE 30 company.

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47. Concerning the disclosure item 'governance structure, such as committees and other mechanisms to prevent conflict of interest': according to the Code of Corporate Governance it is a mandatory requirement for every listed company to have an Audit Committee with powers and responsibility (as identified in the Code) which should address issues of conflict of interest. Also if there are committees for this purpose other than Audit Committee of the Board, their existence should be disclosed in the annual report. Such information, however, was only found for 14 of the KSE 30 companies.
48. Under the Code sufficient checks and balances mechanisms should be maintained in the structure of the Board and the management. Disclosure of the separation of the positions of CEO and Chairman of the Board, the role of non-executive directors, along with relevant Board committees and mechanisms (including the roles of the internal auditors and the external auditors) can address this issue.
49. The role and function of the board of directors was disclosed by less than half the companies in the study. In most Pakistani companies, the directors perform their function and derive their powers and authority from the Companies Ordinance, the Code of Corporate Governance and the Articles of Association of the Company. Disclosure on this item can be provided by simply publishing the articles of association on the company's website and making reference to it in the annual report.
50. Information on material interests of members of the Board and management were found for just over half the companies in the study. Under section 214 of the Companies Ordinance the directors have to disclose any interest in any undertaking or company where they hold any interest. Such disclosures have to be made in a meeting of the Board. Similarly, the Code of Corporate Governance makes it obligatory on any director, CEO, CFO or any 'executive' of the company to disclose any interest held by them or their spouses in the Company's shares. Based on the aforesaid law, shares held by directors (including their spouse & children), CEO, CFO, Company Secretary and the 'executive' should be shown separately in the pattern of shareholding annexed to the annual report as a requirement of the Code.
51. Compensation policy for senior executives departing the firm as a result of a merger or acquisition was not disclosed by any of the KSE 30 companies. It should be noted that there is no requirement in Pakistan for such disclosure. However, remuneration to executives (collectively) and CEO remuneration are disclosed in the annual accounts. The disclosure of the determination and composition of directors' remuneration was found in the reports of all the KSE 30 companies.
52. Less than one third of the companies in the study provided information on the types and duties of outside board and management positions, and the number of outside board and management position directorships held by the directors. Under the Companies Ordinance, the directors are required to disclose to the Board of Directors the names of all such undertakings or associations where a Director holds any directorships or any other interest. This should also be submitted to the SECP. Further, to be eligible to sit on a Board of Directors, no listed company in Pakistan shall have as a Director a person who is serving as a Director in more than ten listed companies.
53. No disclosure was found among any of the companies containing information on the existence of procedures for addressing conflicts of interest among board members. Pakistan's Companies Ordinance prohibits Directors from participating or voting in proceedings of Directors for any contract or arrangements where the Director has a direct or indirect material interest. Any violation of this law should be reflected in a company's Statement of Compliance with the Code of Corporate Governance. The specific procedures that companies adopt to ensure compliance with this law can vary from company to company, however, and should be disclosed.

54. The disclosure items ‘professional development and training activities’, ‘availability and use of advisorship facility’ and ‘performance evaluation process’ were subject to little or no disclosure. It should be noted that these items are covered under the Code of Corporate Governance and could be considered the subjects of indirect disclosure under the umbrella statement of compliance with the Code.

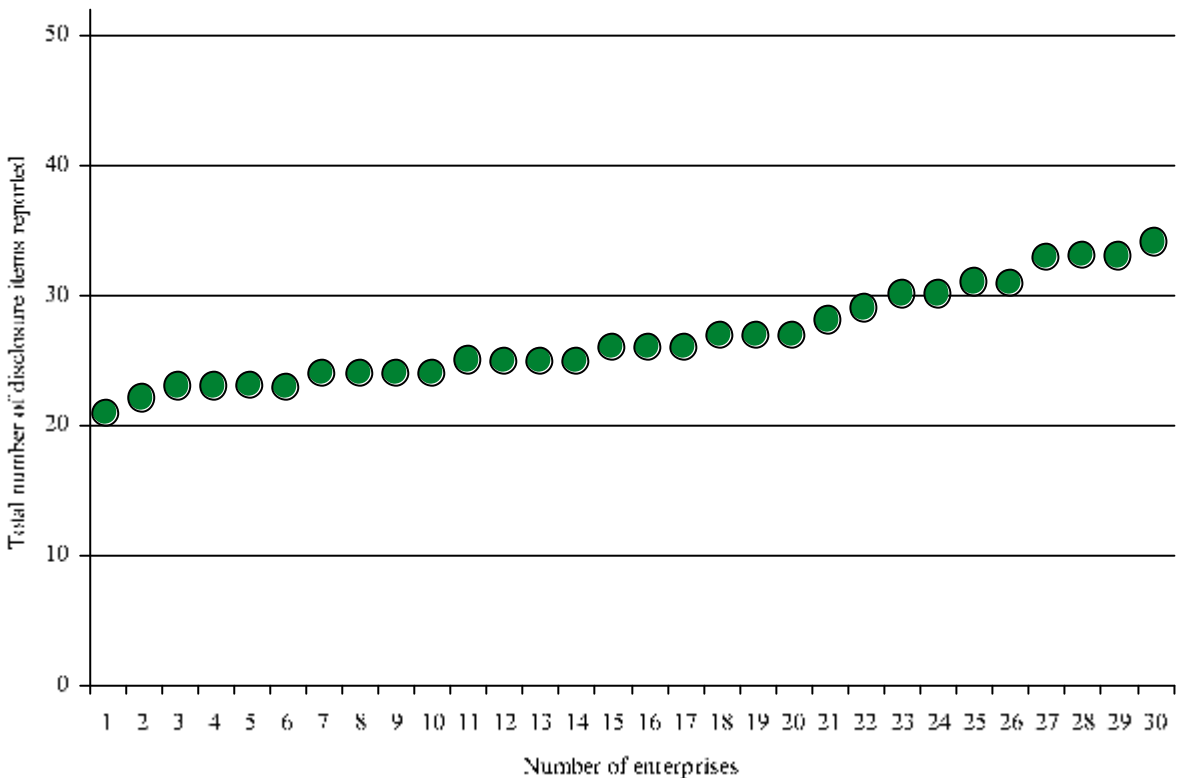
Figure 5. Board and management structure and process
(Number of KSE 30 enterprises disclosing each item)



6. Reporting by enterprise: total number of disclosure items

55. The findings presented in this study have so far focused on the disclosure rates of individual items in the ISAR benchmark among the enterprises of the KSE 30. Figure 6 below focuses not on individual disclosure items, but on the total number of disclosure items reported by the enterprises in the study. This is intended to provide a general overview of the disclosure rates for individual enterprises. What the figure shows is that all of the KSE 30 enterprises reported within a relatively consistent range from a minimum of 21 disclosure items to a maximum of 34. The relatively consistent disclosure practices within the group suggest a market with established best practices among the leading enterprises.
56. This data should also be considered in the context of a separate UNCTAD study of corporate governance disclosure in emerging markets, which found that 40 of the items in the ISAR benchmark are required to be disclosed by enterprises listed on the KSE.³ In this context, the data raises questions about corporate compliance with disclosure requirements in Pakistan.

Figure 6. Reporting by enterprise
(Total number of disclosure items reported by each enterprise of the KSE 30)



III. Conclusions

57. The purpose of this study was to evaluate the level of implementation of corporate governance disclosure among leading enterprises in Pakistan. The reader should again note that, as in UNCTAD's previous reviews on this subject, this study is not intended as a measure of the quality of the disclosure of individual items, rather it is a measure of the existence of the selected disclosure items. The study examined the

³ UNCTAD (2007). 2007 Review of the Implementation Status of Corporate Governance Disclosures: an inventory of disclosure requirements in 25 emerging markets (TD/B/COM.2/ISAR/CRP.6).

disclosure practices of the companies that make up the KSE_30, a popular benchmark of capital market performance in Pakistan. The disclosures made by these companies were compared with the ISAR benchmark of corporate governance disclosure, which includes 52 disclosure items across five broad categories. This study finds relatively consistent rates of corporate governance disclosure among the KSE 30 enterprises, with the average enterprise disclosing about half of the items in the ISAR benchmark. Twenty-two of the items in the ISAR benchmark were disclosed by more than two thirds of the enterprises in the study, and 10 of the items in the ISAR benchmark were disclosed by all of the KSE 30 companies. A number of recommended items in the ISAR benchmark were subject to low rates of disclosure, with 10 items not disclosed by any of the companies in the study. The absolute number of disclosure items found for each company ranged from 21 to 34.

58. A question of disclosure that emerges from this study concerns the role of the statement of compliance with the Code of Corporate Governance. It is generally understood in Pakistan that by giving a statement of compliance with the Code in the annual report, the company provides assurance to stakeholders on all of the items in the Code, unless there are weaknesses highlighted in the company's statement or the external auditor's statement. There is a flaw in the logic of this approach however. The Code covers a broad range of potential disclosure items, many of which are explicitly disclosed in company reports, while others are not explicitly disclosed. To argue that the compliance statement is sufficient disclosure for those things not explicitly disclosed, is to also say that the compliance statement is sufficient disclosure for all things contained in the Code. This does not seem to be correct. For any code of corporate governance, or any company law, there are always a range of different company specific governance mechanisms and practices that would be in compliance. Shareholders and other stakeholders will best be served through the provision of company specific information. Foreign shareholders in particular (who may not be familiar with the Code) will require explicit disclosure of issues related to international best practices in corporate governance disclosure.
59. The data in this study suggests that many companies are not, at present, in compliance with all disclosure rules. The key responsibility for the administration and performance of a company's affairs remains with the Directors. It is also the responsibility of the Directors to ensure that the company complies with the disclosure requirements set out in Pakistan's laws, regulations and listing requirements. In this regard, there is an urgent need for creating awareness amongst Directors about the obligations and benefits of corporate governance disclosure and the need to strengthen disclosure in certain areas. This could be part of ongoing training programmes focused on company Directors. Policy makers and institutions active in the development of corporate governance in Pakistan may wish to further encourage explicit disclosure on particular items to help facilitate greater corporate transparency in accordance with international best practice.