

## **Chapter 4**

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### **Management**



#### 4.1 Chief Executive Officer

##### **SBP Directives**

##### **Prudential Regulation IX**

#### **MANAGEMENT**

No member of the Board of Directors of banking company holding 5 per cent or more of the paid-up capital of the banking company either individually or in concert with family members or concerns/companies in which he/she has the controlling interest, shall be appointed in the bank in any capacity save as the Chief Executive of the Bank (which should not exceed one in any case) and that no payment shall be made or perquisites provided to any such directors other than traveling and daily allowances for attending meetings of the Board of Directors or its Committees. Provided further that not more than 25% of the total directors can be paid executives of the bank.

This regulation shall apply to all banks other than those owned, controlled and managed by the Government.

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#### 4.2 Chief Financial Officer & Company Secretary Appointment

##### **SECP'S CODE**

##### **Para XV**

The appointment, remuneration and terms and conditions of employment of the Chief Financial Officer (CFO), the Company Secretary and the head of internal audit of listed companies shall be determined by the CEO with the approval of the Board of Directors

The CFO or the Company Secretary of listed companies shall not be removed except by the CEO with the approval of the Board of Directors.

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#### 4.3 Qualification

##### **SECP'S CODE**

##### **Para xvi, xvii**

- xvi) No person shall be appointed as the CFO of a listed company unless:
- a) he is a member of a recognized body of professional accountants; or



- b) he is a graduate from a recognized university or equivalent, having at least five years experience in handling financial or corporate affairs of a listed public company or a bank or a financial institution.
- xvii) No person shall be appointed as the Company Secretary of a listed company unless he is:
  - a) a member of a recognized body of professional accountants; or
  - b) a member of a recognized body of corporate/ chartered secretaries; or
  - c) lawyer; or
  - d) a graduate from a recognized university or equivalent, having at least five years experience of handling corporate affairs of a listed public company or corporation.

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#### **4.4 Requirement to attend BOD meetings**

##### **SECP's Code**

##### **Para xviii**

The CFO and the Company Secretary of a listed company shall attend meetings of the Board of Directors.

Provided that unless elected as a director, the CFO or the Company Secretary shall not be deemed to be a director or entitled to cast a vote at meetings of the Board of Directors for the purpose of this clause. Provided further that the CFO and/ or the Company Secretary shall not attend such part of a meeting of the Board of Directors, which involves consideration of an agenda item relating to the CFO, Company Secretary, CEO or any director.

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#### **4.5 Fit & Proper Test for Key Executives**

##### **SBP Directives**

**BPD Cir No. 11 of 5<sup>th</sup> April, 2003**

##### **Assessing the Fitness and Propriety of Key Executives**

As you are aware, the State Bank of Pakistan, for promoting good corporate governance in the financial sector, has already issued "Fit & Proper Test" (FPT) for the directors and chief executive officers of banks/DFIs. To further enlarge the scope of good governance it has now been decided that banks/DFIs shall follow



the guidelines contained in the “Fit and Proper Test” (as below) for appointment of key executives particularly those having the following functional responsibilities:

- a) Chief Financial Officer/Head of Finance/Head of Accounts
- b) Head of Internal Audit
- c) Country Treasurer
- d) Head of Credit/ Risk Management
- e) Head of Operations
- f) Head of Compliance
- g) Head of Human Resource

2. It may please be noted that no prior approval is required from State Bank for aforementioned appointments and each bank/DFI shall itself be responsible to ensure that FPT guidelines have been followed in letter and spirit. The banks/DFIs shall report only brief information of such appointments, as and when made, as per format given at Annexure II to the Director Banking Policy Department for information and record within 7 days from the date of joining of these executives.

3. In case it is found at subsequent stage/during the course of inspection that guidelines of FPT have not been followed or the incumbent is not a fit and proper person, strict punitive action will be taken under the relevant provisions of Banking Companies Ordinance, in addition to directing the banks/DFIs to dispense with the services of concerned officer if recruited afresh; and in case of existing employee, the same to be transferred from the post immediately.

4. The banks/DFIs not meeting the Fit and Proper Test in respect of their existing key executives may regularize the position within 180 days from the date of issuance of this circular. A compliance report may please be furnished in this regard by October 15, 2003 positively. In the meantime, the particulars of incumbents in the above mentioned positions may please be furnished on the enclosed Annexure III within 30 days from the date of issue of this circular.

### **FIT AND PROPER TEST FOR APPOINTMENT OF KEY EXECUTIVES**

#### **1. Honesty, Integrity and Reputation**

(i) He/She has not been convicted of any criminal offence, particularly offences of dishonesty, fraud, financial crime or other offences under legislation relating to banking and financial services;



(ii) He/She has not been subject of any adverse findings or any settlement in civil/criminal proceedings particularly with regard to investments, financial/business, misconduct, fraud, formation or management of a body corporate etc.

(iii) He/She has not contravened any of the requirements and standards of regulatory system or the equivalent standards of requirements of other regulatory authorities, which would adversely reflect on the above areas.

## **2. Competence and Capability**

He/She must have adequate professional qualification and experience commensurate to the job as determined by the bank.

## **3. Track Record**

(i) He/She has not been removed/dismissed in the capacity of an employee, director/ chairman on account of financial frauds, moral turpitude, misconduct and misappropriation of funds.

(ii) No material adverse reports, from past employers of the person being considered for the key executive post.

## **4. Financial Soundness**

He/She has not been in default of payment of dues owed to any financial institution and/or has not been declared as defaulter in payment of any taxes in individual capacity or as proprietary concern.

## **5. Conflict of Interest**

(i) He/She does not head more than one functional areas that give rise to conflict of interest within the organization. For example the departments of Audit and Accounts cannot be headed by the same person.

(ii) He/She does not hold directorship in his/her personal capacity in a business concern that is also a client of the bank/DFI as well as in any other financial institution. The term financial institution will include any bank, investment finance company, non-banking finance company, venture capital company, housing finance company, leasing company or modaraba company