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## **Chapter 5**

### **Financial Disclosure**



## 5.1 Accounts and balance-sheet

BCO 1962

Section 34

### **Accounts and balance-sheet:**

1) At the expiration of each calendar year every banking company incorporated in Pakistan, in respect of all business transacted by it, and every banking company incorporated outside Pakistan, in respect of all business transact through its branches in Pakistan, shall prepare with reference to that year a balance-sheet and profit and loss account as on the last working day of the year in the forms set out in the Second Schedule or as near thereto as circumstances admit.

(2) The balance sheet and profit and loss account shall be signed.—

- a) in the case of a banking company incorporated in Pakistan, by the manager or the principal officer of the company and where there are more than three directors of the company, by at least three of those directors, or where there are not more than three directors, by all the directors, and
- (b) in the case of a banking company incorporated outside Pakistan by the manager or agent of the principal office of the company in Pakistan and by another officer next in seniority to the manager or agent.

(3) Notwithstanding that the balance sheet of a banking company is under sub-section (1) required to be prepared in a form other than the form marked 'F' in the Third Schedule to the Companies Act, 1913 (VII of 1913), the requirements of that Act relating to the balance sheet and profit and loss account of a company shall, in so far as they are not inconsistent with this Ordinance, apply to the balance-sheet of profit and loss account, as the case may be, of a banking company.

(4) The State Bank may, after giving not less than fifteen days notice of its intention so to do, from time to time by a notification in the official Gazette, amend the forms set out in the Second Schedule.

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## 5.2 Disclosure

SBP Directives

BSD Cir 36 (10/10/01)

[New format for financial statements]

**Preparation of Accounts and Balance Sheet**

**Under Section 34 of The Banking Companies Ordinance 1962**



In terms of Section 34 of the Banking Companies Ordinance, 1962 the banks are required to prepare their annual accounts in the forms set out in the Second Schedule to the said Ordinance. The existing Second Schedule was previously amended vide BPRD Circular No.31 dated 13<sup>th</sup> August, 1997. Since then a number of significant developments have taken place on the regulatory front coupled with many additions/amendments in the International Accounting Standards. This has necessitated strengthening of the existing disclosure requirements so as to make the published financial statements of banks more user friendly.

Accordingly, in exercise of the powers conferred upon it by sub-Section 4 of Section 34 of the Banking companies Ordinance, 1962, the State Bank of Pakistan has amended the existing forms of Accounts and Balance Sheet of banks. The revised forms of Balance Sheet, Profit & Loss Account, Statement of changes in Equity and Cash Flow Statement together with notes forming part thereof are enclosed, which will substitute the existing forms circulated vide BPRD Circular No.31 dated 13<sup>th</sup> August, 1997. All banks are hereby directed to prepare their annual accounts on the revised forms effective from the accounting year ending 31<sup>st</sup> December 2001 and onwards.

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### **5.3 Directors' Report to Shareholders**

**CO 1984**

**Section 236**

#### **Directors' report:**

- (1) The directors shall make out and attach to every balance-sheet a report with respect to the state of the company's affairs, the amount, if any, which they recommend should be paid by way of dividend and the amount, if any, which they propose to carry to the Reserve Fund, General Reserve or Reserve Account shown specifically in the balance- sheet or to a Reserve Fund, General Reserve or Reserve Account to be shown specifically in a subsequent balance-sheet.
- (2) In the case of a public company or a private company which is a subsidiary of a public company, the directors report shall, in addition to the matters specified in sub-section (1), -
  - (a) disclose any material changes and commitments affecting the financial position of the company which have occurred between the end of the financial year of the company to which the balance- sheet relates and the date of the report;



- (b) so far as is material for the appreciation of the state of the company's affairs by its members, deal with any changes that have occurred during the financial year concerning the nature of the business of the company or of its subsidiary, or in the classes of business in which company has interest, whether as a member of another company or otherwise, unless the Authority exempts any company from making such disclosure on the ground that such disclosures would be prejudicial to the business of the company.
  - (c) contain the fullest information and explanation in regard to any reservation, observation, qualification or adverse remarks contained in the auditor's report;
  - (d) circulate with it information about the pattern of holding of the shares in the form prescribed;
  - (e) state the name and country of incorporation of its holding company, if any, where such holding company is established outside Pakistan;
  - (f) state the earning per share;
  - (g) give reasons for incurring loss and a reasonable indication of future prospects of profit, if any; and
  - (h) contain information about defaults in payment of debts, if any, and reasons thereof.
- (3) The report referred to in sub-section (1) shall be signed by the chairman of the directors or the chief executive of the company on behalf of the directors if authorized in that behalf of the directors and, when not so authorized, shall be signed by the chief executive and such number of directors as are required to sign the balance sheet and profit and loss account under section 241.
- (4) If a company fails to comply with any of the requirements of this section, every director, including the chief executive, of the company who has knowingly by his act or omission been the cause of any default by the company in complying with the requirements of this section shall, - (a) in respect of a listed company, be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than ten thousand rupees or more than twenty thousand rupees, and with a further fine which may extend to two thousand rupees for every day after the first during which the default continues; and (b) in respect of any other company, be punishable with imprisonment for a term



which may extend to six months and with fine which may extend to five thousand rupees.

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

#### **Para xix**

The directors of listed companies shall include statements to the following effect in the Directors' Report, prepared under section 236 of the Companies Ordinance, 1984:

- a) The financial statements, prepared by the management of the listed company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b) Proper books of account of the listed company have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts upon the listed company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

The Directors' Reports of listed companies shall also include the following, where necessary:

- a) If the listed company is not considered to be a going concern, the fact along with reasons shall be disclosed.
- b) Significant deviations from last year in operating results of the listed company shall be highlighted and reasons thereof shall be explained.
- c) Key operating and financial data of last six years shall be summarized.
- d) If the listed company has not declared dividend or issued bonus shares for any year, the reasons thereof shall be given.
- e) Where any statutory payment on account of taxes, duties, levies and charges is outstanding, the amount together with a brief description and reasons for the same shall be disclosed.
- f) Significant plans and decisions, such as corporate restructuring, business expansion and discontinuance of operations, shall be outlined along with future prospects, risks and uncertainties surrounding the listed company.



- g) A statement as to the value of investments of provident, gratuity and pension funds, based on their respective audited accounts, shall be included.
- h) The number of Board meetings held during the year and attendance by each director shall be disclosed.
- i) The pattern of shareholding shall be reported to disclose the aggregate number of shares (along with name wise details where stated below) held by:

- ?? associated companies, undertakings and related parties (name wise details);
- ?? NIT and ICP (name wise details);
- ?? directors, CEO and their spouse and minor children (name wise details);
- ?? executives;
- ?? public sector companies and corporations;
- ?? banks, Development Finance Institutions, Non-Banking Finance Institutions, insurance companies, modarabas and mutual funds; and
- ?? shareholders holding ten percent or more voting interest in the listed company (name wise details).

**Explanation:** For the purpose of this clause, clause (b) of direction (i) and direction (xxiii), the expression “executive” means an employee of a listed company other than the CEO and directors whose basic salary exceeds five hundred thousand rupees in a financial year.

- j) All trades in the shares of the listed company, carried out by its directors, CEO, CFO, Company Secretary and their spouses and minor children shall also be disclosed.

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## 5.4 Frequency of Reports

**SBP Directives**

**BSD Cir Letter 09 (04/08/03)**

### Quarterly & Half yearly financial statements

In terms of Para 3 of Prudential Regulation No.XXIX regarding “Responsibilities of Board of Directors” issued vide BSD Circular No.15 dated 13<sup>th</sup> June, 2002, all banks/DFIs are, interalia, required to follow the ‘Code of Corporate Governance’ issued by the SECP so long as any provision thereof does not come into conflict with any provision of the Banking Companies Ordinance, 1962, Prudential Regulations and the instructions/guidelines issued by the State Bank.



We have been receiving queries from Non-listed banks/DFIs, including those who have peculiar share holding structure, that whether they need to follow clause XX and XXI of the Code of Corporate Governance of SECP or not. Clause XX requires listed institutions to publish and circulate un-audited financial statements along with directors' review on the affairs of the listed company on quarterly basis and clause XXI requires that all listed companies shall ensure that half-yearly financial statements are subjected to a limited scope review by the statutory auditors.

To enhance financial disclosure and transparency, all the institutions – listed and non-listed – are advised to follow clauses XX and XXI of the Code of Corporate Governance of SECP. However, as far as Clause XX is concerned banks/DFIs may decide not to circulate printed copies of the un-audited financial statements alongwith directors' review on the affairs of the company, on quarterly basis, to all the members except SBP, SECP and stock exchanges. In that event they will have to ensure publication of the same in the leading newspaper(s).

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

#### **Para xx to xxiii**

xx) The quarterly un-audited financial statements of listed companies shall be published and circulated along with directors' review on the affairs of the listed company for the quarter.

xxi) All listed companies shall ensure that half-yearly financial statements are subjected to a limited scope review by the statutory auditors in such manner and according to such terms and conditions as may be determined by the Institute of Chartered Accountants of Pakistan and approved by the Securities and Exchange Commission of Pakistan.

xxii) All listed companies shall ensure that the annual audited financial statements are circulated not later than four months from the close of the financial year.

xxiii) Every listed company shall immediately disseminate to the Securities and Exchange Commission of Pakistan and the stock exchange on which its shares are listed all material information relating to the business and other affairs of the listed company that will affect the market price of its shares. Mode of dissemination of information shall be prescribed by the stock exchange on which shares of the company are listed.



This information may include but shall not be restricted to information regarding a joint venture, merger or acquisition or loss of any material contract; purchase or sale of significant assets; any unforeseen or undisclosed impairment of assets due to technological obsolescence, etc.; delay/ loss of production due to strike, fire, natural calamities, major breakdown, etc.; issue or redemption of any securities; a major change in borrowings including any default in repayment or rescheduling of loans; and change in directors, Chairman or CEO of the listed company.

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## **5.5 Responsibility for Financial Reports and Corporate Compliance**

### **SECP'S CODE**

### **Para xxiv & xxv**

xxiv) No listed company shall circulate its financial statements unless the CEO and the CFO present the financial statements, duly endorsed under their respective signatures, for consideration and approval of the Board of Directors and the Board, after consideration and approval, authorize the signing of financial statements for issuance and circulation.

xxv) The Company Secretary of a listed company shall furnish a Secretarial Compliance Certificate, in the prescribed form, as part of the annual return filed with the Registrar of Companies to certify that the secretarial and corporate requirements of the Companies Ordinance, 1984 have been duly complied with.

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## **5.6 Disclosure of Interest by Directors holding company shares**

### **SECP'S CODE**

### **Para xxvi**

Where any director, CEO or executive of a listed company or their spouses sell, buy or take any position, whether directly or indirectly, in shares of the listed company of which he is a director, CEO or executive, as the case may be, he shall immediately notify in writing the Company Secretary of his intentions. Such director, CEO or executive, as the case may be, shall also deliver a written record of the price, number of shares, form of share certificates (i.e. whether physical or electronic within the Central Depository System) and nature of transaction to the Company Secretary within four days of effecting the transaction. The notice of the director, CEO or executive, as the case may be, shall be presented by the Company Secretary at the meeting of the Board of Directors immediately subsequent to such transaction. In the event of default by a director, CEO or executive to give a written notice or deliver a written record, the Company Secretary shall place the matter before the Board of Directors in its immediate next meeting:





Provided that each listed company shall determine a closed period prior to the announcement of interim/ final results and any business decision, which may materially affect the market price of its shares. No director, CEO or executive shall, directly or indirectly, deal in the shares of the listed company in any manner during the closed period.

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## **5.7 Corporate Ownership Structure**

### **SECP'S CODE**

### **Para xxviii**

Every company which is proposed to be listed shall, at the time of public offering, offer not less than Rs. 100 million or 20% of the share capital of the company, whichever is higher, to the general public unless the limit is relaxed by the stock exchange with the approval of the Securities and Exchange Commission of Pakistan.

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## **5.8 Divestiture of shares by sponsors/controlling interest**

### **SECP'S CODE**

### **Para xxix**

In the event of divestiture of not less than 75% of the total shareholding of a listed company, other than a divestiture by non-resident shareholder(s) in favour of other non-resident shareholder(s) or a disinvestment through the process of privatization by the Federal or Provincial Government, at a price higher than the market value ruling at the time of divestiture, it shall be desirable and expected of the directors of the listed company to allow the transfer of shares after it has been ascertained that an offer in writing has been made to the minority shareholders for acquisition of their shares at the same price at which the divestiture of majority shares was contemplated. Where the offer price to minority shareholders is lower than the price offered for acquisition of controlling interest, such offer price shall be subject to the approval of the Securities and Exchange Commission of Pakistan.