

13th October, 2003

SBP GOVERNOR STRESSES THE NEED OF ADOPTING BEST INTERNATIONAL PRACTICES IN CORPORATE GOVERNANCE

The Governor, State Bank of Pakistan, Dr. Ishrat Husain has stressed upon the banks to adopt best international practices in corporate governance. He was speaking at the concluding session of the Conference on Corporate Governance organized by the State Bank in Karachi today.

The Governor outlined the following seven principles, of good corporate governance on best international practices:-

- Selection of right people as Directors who possess the courage to challenge the CEO and who can engage in real debate without dragging in their egos.
- Training of directors by arranging face-to-face meetings with all the top executives of the banks and providing them with briefings, books and arranging site visits etc.
- Prompt delivery of relevant information in multiple formats and structure board meeting in such a way as to provide ample time for discussion.
- Balancing the CEO's power by making sure that the independent directors appoint new directors, take control of committees' chairmanship, hold meetings without the CEO, and control succession planning in the organization.
- Establishment of new behavior by appointing CEOs who value teamwork and want full feedback with a tone of collegiality and constructive skepticism.
- Allow time to board members for preparing discussion and developing interaction for the board meetings.
- Establishment of a tradition to continuously evaluate and improve the performance by refining practices.

The Governor expressed the hope that the corporate governance in the banking sector would be developed in such a way that the Pakistan's banking sector would be rated at

least A+ or equivalent by the world renowned Rating Agencies, i.e. M/s. Standard & Poor and the Moodys.

He impressed upon the Board and Management of the Banks to work in close cooperation to achieve better results.

Dr. Ishrat Husain also stressed upon the management of banks to adopt self-regulatory approach with regard to the corporate governance.

Earlier, the State Bank Deputy Governor, Mr. Tawfiq A. Husain while inaugurating the conference said that SBP has provided framework of good Corporate Governance by issuing instructions in areas of Fit and Proper test for Board/Senior Management of Banks. He was of the view that there are four lines of defense in case of banks/DFIs. First line of defense is the professional and sound management of these institutions. Second is a responsible Board of Directors. Diligent External Auditors are the third line of defense and the State Bank playing its role of an effective and firm but fair regulator comes as last line of defense. Mr. Tawfiq A. Husain made it clear that there is zero of tolerance for unprofessionalism, poor ethics and bad governance on the part of BOD/Senior Management.

Mr. Jameel Ahmad, Director, Banking Supervision Department, State Bank of Pakistan gave an overview of the roles and responsibilities of the Board of Directors (BOD) as well as the guide lines on Risk Management recently issued by the State Bank. He also apprised the participant of the result of survey done by SBP regarding short comings in the corporate governance of the banks.

Mr. Ebrahim Sidat, Senior Country Managing Partner/CEO of M/s. Ford Rhodes Sidat Hyder & Co. speaking on the occasion said that Corporate Governance is a continuing activity and not a one time phenomena. 'Effective MIS is the eyes and ears of BOD. It should be meaningful and facilitate decisions making by the board', he added.

Mr. S. Masood Ali Naqvi, Senior Partner, M/s. Taseer Hadi Khalid & Co deliberated on disclosures and auditing. In his presentation, he covered the corporate disclosures, financial and non-financial, their need, importance and international practices in this regard.

Mr. Etrat H. Rizvi, Commissioner SECP apprised the participants of the salient features of the code of Corporate Governance issued by the SECP.

Mr. Zakir Mahmood, President, Habib Bank was of the view that market risk is now becoming one of the major challenges faced by the banks and that boards should be vigilant in this area also.

Mr. Aftab Manzoor President MCB and Mr. Naveed A Khan, Country Manager, ABN AMRO Bank, also participated in a panel discussion on the subject of corporate governance.

The conference was organized to increase awareness about the corporate governance and the responsibilities of all stakeholders, particularly the Board of Directors and emphasized that sound Corporate Governance envisages setting up an environment of trust, transparency ethics, responsible behaviour, checks and balances.