

## Introduction

Securities and Exchange Commission of Pakistan ["SECP"] published **Guidelines for Performance Evaluation** of the Board of Directors ["**Board**"], Chief Executive Officer ["**CEO**"] and Chief Regulatory Officer ["**CRO**"] ["**Guidelines**"].

**These Guidelines have been issued to evaluate performance of the Board, CEO and the CRO of self-regulatory organizations ["SROs"], such as: Pakistan Stock Exchange, Central Depository Company, National Clearing Company, Pakistan Mercantile Exchange etc.**

Guidelines provide that SROs to formulate its own performance evaluation criteria keeping in mind its size, complexity and structure.

### Comments:

The Guidelines should figuratively specify size and complexity criteria for companies to follow these Guidelines.

## Approaches

The **chairman** may adopt any of the following approaches for performance evaluation of the board:

- **In house:** to be **carried-out by chairman** with assistance from members of the **nomination committee** and the **company secretary**.
- **Independent:** to carried-out by advisors such as: institutes like PICG, ICAP, ICMAP, PIM etc. for **independent performance evaluation**.
- **Both:** It may adopt **hybrid** performance evaluation of two approaches, above.

## Techniques

The board may adopt both **quantitative** and **qualitative** techniques while carrying out the process of performance evaluation.

## Frequency

The board to evaluate performance of overall board, CEO and CRO **annually** and at least **once every 3 years** only by an **external independent evaluator**.

## Action Plan

After performance evaluation process, requisite **strategies and action plans** to be formulated to address the identified challenges / issues to be shared with the chairman and the nomination committee. Final report containing the results and plans to address the issues to be **shared with SECP**.

## Board of Directors (Board)

Following are some of the **specific issues** that need to be considered for evaluating performance of the board:

- Right **composition of the board** i.e. having the right **mix of knowledge, expertise and skills**;
- Execution of board in supporting and upholding **core values**;
- **Contribution** of **board** towards developing strategies;
- Board prompt action in making strategic decisions ensuring **operations are in line** with strategies;
- Contribution of board in ensuring robust and effective **risk management**;
- Board to ensure setting-up of internal control, audit function and IT security, **function effectively**;
- Board to ensure timely and accurate disclosure on all **material information**;
- Board to be aware of **latest developments** in the regulatory environment;
- Board to adhere to **code of conduct**;
- Role of chairman adequately and constructively executed;
- Role of directors adequately performed in attending meetings, quality of contribution and preparedness for agendas etc.

### Comments:

These Guidelines do not cater for evaluating performance of director in their personal capacity.

## Chief Executive Officer (CEO)

Performance evaluation of CEO to be carried out by **all the directors**. Following are some of the specific questions that need to be considered in the performance evaluation of CEO:

- Were the **financial/business targets** set by the board achieved?
- Does he possess **leadership qualities**?
- Has he **developed clear mission statement**, policies, and strategic plans that adhere the needs of all the stakeholders?
- Does he ensure that company's resources and **budgets are aligned** with the **organization's strategic plan**?
- Does he establish an organizational structure to ensure management's **focus on key functions**?
- Does he timely and **effectively execute strategies** set by the board?
- Has he served as an **effective representative** while communicating with all the stakeholders?

## Chief Regulatory Officer (CRO)

Performance evaluation of CRO to be carried out **by all the directors** based on feedback of the **regulatory affairs committee**. Following are some of the specific questions that should be considered in the performance evaluation of CRO:

- Were the **regulatory targets** set by the regulatory affairs committee achieved?
- Does he possess **leadership qualities** and independence to steer the regulatory functions?
- Has he developed **clear mission statement**, policies, and strategic plans in line with his regulatory responsibilities?
- Does he establish an **effective structure of the regulatory affairs department** to exercise regulatory responsibilities efficiently?
- Does he **timely and effectively execute strategies and plans** set by the regulatory affairs committee and adheres to the applicable policies?

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