STATE-OWNED ENTERPRISES (SOEs)

Ownership and Management Policy, 2023

Finance Division
Government of Pakistan

i) an independent director shall not be appointed to the same Board after two consecutive terms unless the period of three years has lapsed.

j) an Independent Director shall not serve for more than nine years on the Board.

k) the Chairman of the Board will be appointed by the Federal Government from one of the independent directors.

l) the offices of Chairman and CEO must be kept separate.

m) representation from the administrative Ministry/Division on the Boards of SOEs shall be restricted to one member per Board.

n) the representation of any other Ministries/Divisions (other than Ministry of Finance) and any other public sector agency shall be discouraged.

o) The Ministries nominating ex-officio members to the Board will ensure that the officer nominated possesses the required knowledge, skills, and experience to make a meaningful contribution to Board and committees' deliberation. Adequate fee shall be fixed for the independent and ex-officio directors for attending Board and committee meetings along with any travelling, Boarding lodging that is essential for attending the above meetings. The remunerations shall commensurate with the level of responsibility and expertise and no additional perks and privileges will be admissible to the directors. The remuneration shall not be at a level that could be perceived to compromise the independence of the Board members.

p) appointment of an individual to more than 5 Boards simultaneously shall be prohibited.

25. Each director of the SOE will have to satisfactorily complete Director Training Program for SOEs. This customized program for directors of SOEs will be developed by the SECP in partnership with other stakeholders. The directors will take this training within six months of their appointment.

26. Each Board of a Company will be responsible for selecting and appointing the Chief Executive Officer (CEO) under a performance-based contract as per the criteria set by the Board. CEOs will only be appointed and removed by the 3/4 majority resolution of the Board, which shall include the ex-officio nominee directors. Financial compensation for the CEO will be determined by the Board. The CMU shall issue guidelines/rules for appointments of the key positions namely CEO, Chief Financial Officer (CFO), Chief Internal Auditor (CIA) and Company Secretary of the Public Sector Companies within six months of the issuance of this Policy. Till new guidelines /rules for appointments of these positions are issued by CMU under this Policy, the existing provisions under Public Sector Companies (Corporate Governance Rules), 2013 will be applicable subject to compliance with the Act and the Policy.

Competitive Neutrality

27. No SOE or any subsidiary of the SOE will be granted any special exemption which gives them an unfair competitive market advantage or maintain a dominant market position to the detriment of development of a sector unless notified by the Federal Government on a case to case basis. The Federal Government will ensure that SOEs, simply by virtue of their state ownership, do not enjoy any competitive advantages over their private sector competitors without objective justification. The detailed framework is at **Annexure-4**.

Issuance and Reporting of Guarantees for SOEs

28. The Debt Policy Coordination Office (DPCO) of the Ministry of Finance in consultation with the CMU will issue a risk analysis report on contingent liabilities of SOEs on an annual basis to be presented to the Federal Government and published on the website of the CMU/Ministry of Finance under section 4(1)(c) of the Act. Every SOE will clearly state and publish in their annual report all contingent liabilities, guarantees provided by the Federal Government, or third parties on behalf of the Federal Government, payables to other SOEs and any loans or other financial support provided by the Federal Government or other SOEs.

Human Resource of SOEs

29. All SOEs shall establish Human Resource (HR) policies to improve the quality of their human resources and organizational structure after approval from their respective Board of Directors.

30. SOEs will consider following guidelines for developing their HR policies:

a) HR Policy/rules/regulations shall be approved, amended, or superseded with the approval of the Board of Directors of that SOE, unless otherwise provided in the primary legislation of the statutory SOEs. Such Policies/rules/regulations shall be based the principles of fairness, transparency and equity.

b) Regular HR review mechanism shall put in place with the view to rationalize the workforce.

c) The Board shall ensure that wherever possible the new appointments may preferable be on the contract basis with termination clause of one month notice.

d) All SOEs shall carry out annual performance evaluation of their human resources and the decisions for continuation/termination of the contract shall be based on the performance evaluation.

e) Fit and proper criterion for the appointment of CEO, CFO, CIA, Company Secretary and other senior management officers by whatever name called shall be in accordance with the Section 16 and Schedule IV of the SOEs, Act, 2023.

Accounting and other Financial Standards

31. Finance Division, in consultation with the Auditor General of Pakistan, is mandated to issue detailed framework for financial management of statutory SOEs. All SOEs will establish internal audit procedures and mechanisms as required under sections 19 and 20 of the Act. Details are at **Annexure 6**.

Public Service Obligation (PSO)

32. Under section 7(4) of the SOEs Act, 2023 the Federal Government may direct a commercial SOE to undertake a PSO. If undertaking the PSO is not consistent with the SOE's primary objective, the Federal Government must agree in writing to compensate the SOE in a manner that maintains the SOE's commercial viability. The PSO framework is at **Annexure-5**.

Board Committees

33. The Act has laid down the framework for the establishment of an Audit Committee of the Board. An overview of the process and functions of the Audit Committee is at **Annexure 6**. However,