

Fostering Good Corporate Governance

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I would like to begin by extending my heartfelt felicitations to all those companies who have been chosen to receive the awards on Best Corporate Reporting this evening. I would also like to commend ICAP and ICMAP for instituting these awards, holding public ceremonies to acknowledge the winners and continuing with the tradition for last several years.

As you may have heard me say so often that we are very generous at finding faults and putting people and institutions down but very stingy in acknowledging success and appreciating those individuals, firms, institutions which have excelled in their respective fields. If you look around the world, the countries that have made strides in the various fields of human endeavour have reinforced positive behavior right from the childhood. Penalties alone without rewards are a very unsatisfactory way of making progress but a sure way of retarding progress. I therefore hope that other organizations in the country will follow this honourable tradition and recognize people in the various professions and vocations of life.

What the winners of this evening, I hope bring forth is demonstration effect upon their peers who may like to emulate them and win a place for themselves in the coming year. This event will foster a sense of competition and the virtuous cycle will, over time, promote high standards of corporate governance, transparency and disclosure in the organized sector. No amount of rules, regulations can be so powerful as this demonstration effect in altering the behavior of the majority of the corporates. Of course, we should not pretend that we would have one hundred percent compliance and improvement but even if we succeed in raising the standards of the majority of the firms it would be quite a success. There will always be individuals and firms not only in

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Pakistan but all over the world which will indulge in concealment of material facts, suppression of bad news and artificial padding of accounts. Despite very stringent laws and regulations, we haven't escaped from the episodes of Enron, WorldCom, Long-Term Capital Management, Parmalat during the last few years. Bad governance did pay those at the helm of the affairs in the very short run but soon after their names get muddied they end up in prisons facing criminal charges and the companies are destroyed.

It is also a serious misunderstanding that only the publicly listed companies have the obligation to observe good governance practices and make maximum disclosure of pertinent information to the public at large. I have heard many observers making the comment that the private limited companies find the SECP's corporate governance code too onerous and therefore they do not wish to be listed. It is one thing to comply with the regulatory requirements but it is another thing to grow into a full-fledged mature company competing for goods and services in the economy. Whatever may be the legal status of a firm as long as it has aspirations and ambitions of expanding and growing beyond a certain threshold it has to raise financial resources from those outside the immediate family or the sponsors. As soon as a firm decides to access others' money in form of equity or debt it becomes obligatory on its part to provide as much information on a regular and continuing basis to those who have contributed their money with full sense of responsibility and integrity. The financial world of today is highly heterogeneous consisting of a whole spectrum of investors with their peculiar needs and a whole variety of issuers with their own unique requirements. The simplistic model of raising funds through the listing at the stock market or through TFCs is no longer the only game in the town. With diverse array of mutual funds, asset management companies, private equity funds, hedge funds, private placement of debt, venture capital funds, banking products the opportunities for raising funds at fine pricing outside the immediate circle of family and friends have vastly expanded. So it has become imperative that the code of corporate governance should no longer be the prerogative of only those who are planning to list themselves but all these myriad of investors will expect exactly the same behavior in the outfits in which they have acquired stakes.

But there is also a more compelling reason of purely selfish nature for sustenance of these companies. Not only the financiers but the buyers, suppliers, customers and civil society organizations are also becoming very conscious of the corporate social responsibility. It is true for the time being in case of global markets but it is sooner than later going to hit us domestically also.

I also believe that the regulators, the monetary authorities and the government should also themselves set high standards of disclosure and transparency in their own affairs. The regulatees cannot be expected to observe good governance if the regulators themselves do not follow them. Both the SBP and SECP have adopted an open and consultative process in which regulations are formulated, data of high quality and reliability are disseminated publicly in a timely manner and best international practices are pursued in their day-to-day operations. The SBP has started producing an annual Corporate Performance Report as part of its accountability obligation. We have begun to publish a forward-looking six monthly monetary policy statement in which we disclose our stance for the consumption of the whole nation. Although this transparency and candor has its costs as the markets overreacts to such kind of information but I believe this cost is worth bearing in the interests of transparency, strengthening the markets in this country and providing level playing field for all market participants.

In the end, let me say that cultural changes and attitudinal changes take place slowly and gradually. We have to be patient and work relentlessly on achieving the desired changes but we should not become dependent and give up the journey that we have set for ourselves.