

Statement of the Chairman SECP at  
Sahiwal Chamber of Commerce & Industry  
Friday 23 September 2005

Distinguished Guests:

Ladies and Gentlemen:

Assalam-u-Alaikum!

It is a privilege to join you today in the city of Sahiwal. I feel honored to be invited by the members of the Sahiwal Chamber of Commerce and Industry. The opportunity to share with you my thoughts regarding the concept of corporatization, in particular, and about compliance trend in corporate law enforcement, in general is indeed valuable to me.

I consider Sahiwal to be an important agricultural and industrial center of Punjab. Presently, around 568 industrial units are operating in the region. However, the vast majority of these business concerns are operating as non-corporate entities as the total registered companies in Sahiwal are 72.

Due to its rich agricultural background, this area has a promising potential for growth in various dairy and agro-based products, including leather, livestock, etc. Furthermore, the Government is also taking a keen interest in the development of business activities within the region as evident from the approval of export processing zone at Sahiwal. The establishment of Sahiwal Chamber of Commerce and Industry in 2004 is also a significant development that would provide opportunities for businesses to flourish and grow.

I believe that the unbound potential of this region can be optimally utilized if the evolving growth opportunities are attained through corporatization, leading to the development of corporate culture in the region. At the Securities and Exchange Commission of Pakistan (SECP), we consider that this paradigm shift would require you - the business community – to play its due role as well as us at the SECP to provide a conducive environment for accelerating corporatization.

In recent times, a notable dynamic of economic progress has been the growth of the corporate sector. The corporatization phenomenon has witnessed unparalleled growth amongst business enterprises, throughout the world, due to the benefits it offers. Those of you already working under the corporate umbrella are likely to be familiar with the benefits that corporatization offer to a business entity. But for those of you functioning as a proprietorship or partnership, opting corporate legal status would bring some definite plus to your status.

Ladies and Gentlemen:

I would like to mention that the advantages of a well-functioning company structure in a conducive atmosphere are well-recognized and its linkages with efficiency and growth are demonstrable in many instances. It is mentioned that adopting a limited liability company status by a business enterprise offers certain benefits. Primarily, it extends the rights, duties and privileges of a natural person to a legal entity. These rights include among others the right to borrow money and invest funds, own property, sue and be sued and enter into contracts. Corporatization also allows the owners to limit their liability up to the extent of their investment in share capital of the entity. In addition, transferability of ownership interests is possible. Therefore, the life of a corporate entity is not limited to the life of its owners; rather it has perpetual succession. In addition, a corporate entity is better placed to raise equity and debt funds. It has easy access to capital market for raising long-term funds. Moreover, financial institutions generally prefer to extend financial assistance to documented and organized form of incorporated business that enjoys credibility. Corporatization,

therefore, is the means by which companies seek to improve competitiveness and access to capital and borrowing in a local and global market.

As part of its endeavors, the SECP has undertaken a number of measures to facilitate development of the corporate sector and to encourage corporatization. Legal framework has been reformed to bring it in conformity with the changing trends in corporate regulations and to address practical difficulties of corporates. The introduction of the Single Member Company (SMC) – to allow sole proprietors to embrace the corporate status – is particularly noteworthy here. The SECP has also evolved an expeditious incorporation process at our front end Company Registration Offices (CROs). A company can now be incorporated within three days, far less time compared to any other contemporary jurisdiction.

In order to facilitate promoters, the name search facility has been provided on the SECP's website and the name availability certificate can be obtained within the same day. Other public services, like inspection of records and provision of certified copies are also being rendered on the same day. Our website contains standard memorandum of association for various sectors to facilitate the documentation required in registering a company. To boost corporatization, the SECP has reduced incorporation fees and simplified the requirements of various returns, prescribed under the law, to facilitate compliance with statutory requirements.

The SECP has also been providing useful reference material for guidance of the corporate sector and the general public. This role has been further strengthened with the launch of guidance booklets, including the Promoters Guide, the Directors and Secretaries Guide, the Single Member Company Guide and the Mortgages and Charges Registration Guide. The forms and booklets are available at CROs and on the SECP's website.

Ladies and Gentlemen:

The SECP has adopted a holistic approach in removing impediments to corporatization. In this regard, it has been in dialogue with concerned agencies to provide a facilitative environment to promoters and companies. I would like to share with you that on the SECP's request, the provincial government of Punjab has abolished stamp duty applicable on registration of memorandum and articles of association. In a similar spirit, the SECP formed a joint task force with the Central Board of Revenue to address the pressing issue of excessive tax burden on corporate entities and develop a corporate tax policy. The recommendations made by the task force were largely accepted by the government through the Finance Act, 2005. As a consequence, the concept of "small company" having certain preferential tax treatments has been introduced in the income tax law. To be more elaborate, the income tax rate on small company would be 20% and it would be exempt from withholding tax as well as from minimum tax. It is envisioned that the tax benefits offered to a small company are significant to encourage corporatization of SMEs and enable them to survive in a competitive business environment.

Ladies and Gentlemen:

We appreciate the initiatives and efforts of your Chamber to establish a help desk of SMEDA and holding of seminars in collaboration with them. This would further facilitate corporatization of SMEs in the area. I would like to mention that the SECP also plans to conduct awareness creation seminars on corporate legal status and corporate compliance in various cities of the country, including Sahiwal. We would request coordination by respective Chambers and also look forward to your support for the purpose.

Let me conclude by reemphasizing the SECP's commitment to continue its efforts for corporate sector development and growth along with its effective regulation. I expect that the business community would also join hands with the Commission and undertake concerted efforts to achieve these targets.

Thank you.