



Securities and Exchange Commission of Pakistan

Company Law Division
Registration Department

No.CLD/RD/CO-42/17/2005

Islamabad, December 24, 2008

Circular No. 29/2008

Subject: **CONDITIONS FOR GRANT OF LICENCE TO ASSOCIATIONS
NOT FOR PROFIT UNDER SECTION 42 OF THE COMPANIES
ORDINANCE, 1984**

Section 42 of the Companies Ordinance, 1984 (the Ordinance) and Rule 6 of the Companies (General Provisions and Forms) Rules, 1985 (the Rules) provide the legal framework for licencing and incorporation of Associations not-for-profit, having objects to promote commerce, art, science, religion, sports, social services, charity or any other useful object. Such Associations, being companies limited by guarantee, apply their profit, if any, or other income in promoting their objects and prohibit payment of any dividend to their members.

2. In terms of section 42 of the Ordinance and rule 6 of the Rules, the Commission may grant licence on such conditions, as it thinks fit, and these conditions shall be binding on the associations and shall, if the Securities and Exchange Commission of Pakistan (the Commission) so directs, be inserted in the Memorandum and Articles of Association.

3. In this context, it has been observed that promoters of most of such associations insist for allowing multiple objects, ignoring the facts that they do not have sufficient skills, expertise and resources for the attainment of those multiple objects. Moreover, it has been noticed that this practice leads to misuse of resources in most of associations having multiple objects. Other issues of regulation may also arise while regulating associations having multiple objects working in various areas for attainment thereof. It will be difficult to account for the various activities and funds spent on such pursuits may be improper.

4. Keeping in view of above, the following further conditions have been imposed by the Commission for grant of licence to such associations:

- (i) An association will be allowed for the promotion of only one object instead of multiple objects falling within the ambit of section 42 of the Ordinance.
- (ii) There must be at least at least 3 subscribers/members of the company. The skills, expertise and resources of the promoters for the attainment of the single object of the proposed company will be evaluated from the detailed resume and statement of income and expenditure provided with the application.
- (iii) The promoters will provide an undertaking to the effect that the promoters have sufficient skills, expertise and resources for the attainment of object of the proposed company. The undertaking should indicate that each promoter shall contribute an amount being not less than Rs. 500,000/- as start up donation. This amount must be reflected in the statement of an estimate of future annual income and expenditure of the proposed company.
- (iv) The Association shall close its accounts on 30th of June each year.
- (v) The Association shall make no investment, whatsoever, in any of its associated companies.
- (vi) The licence will be issued for a definite period of five (5) years renewable for further term(s) of five (5) years each on an application to be submitted to the Commission three months before the expiration of period of licence by the association alongwith following documents:
 - a. Copies of annual audited for the last five (5) years;
 - b. Certificate from concerned registrar regarding compliance with provisions of the Ordinance and the Rules;
 - c. Attested copy of last annual return/Form B filed with the concerned registrar;
 - d. List and complete profile of existing Chief Executive and Directors;
 - e. Affidavit by Chief Executive and all directors affirming that they are not defaulters of loans, etc.
 - f. List of existing members with their occupations, residential addresses, contact numbers and copies of CNICs;
 - g. Brief statement of the work done by the association during the last three years;

- h. Details of the amount of donations and grants received during last five (5) years duly certified by the Chartered Accountants that funds/donations was/were received through banking channel, and details of the donors;
 - (vii) In the case of winding up or dissolution of the Company, any surplus assets or property after the satisfaction of all debts and liabilities shall not be paid or disbursed among the members, but shall be given or transferred to some other company established under section 42 of the Ordinance, having similar or identical objects to those of the Company to be decided by the members of the Company in their general meeting by a special resolution.
5. Moreover, the following conditions which were earlier imposed by the Commission for grant of licence have been revised:
- (i) The company shall not itself set up or otherwise engage in industrial and commercial activities or in any manner function as a trade organization.
 - (ii) The company shall not exploit or offend the religious susceptibilities of the people.
 - (iii) The subscribers to the Memorandum and Articles of Association of the Company shall continue to be the members of the Company unless allowed by the Commission on application to quit as members and will be held responsible and accountable.
 - (iv) The company in all its letterheads, documents, sign boards, and other modes of communication, shall with its name, state the phrase **"A company set up under section 42 of the Companies Ordinance, 1984."**
 - (v) The company shall comply with such conditions as may be imposed by the Commission from time to time.
 - (vi) The income and any profits of the company, shall be applied solely towards the promotion of objects of the company and no portion thereof shall be distributed, paid or transferred directly or indirectly by way of dividend, bonus or otherwise by way of profit to the members of the company or their family members.
 - (vii) The Company shall not appeal, solicit, receive or accept funds, grants, contributions, donations or gifts, in cash or in kind, from foreign sources except with the prior permission, clearance or

approval from the relevant public authorities as may be required under any relevant statutory regulations and laws. No funds shall be received otherwise than through proper banking channels through crossed cheque, pay-order, bank draft etc.

- (viii) Notwithstanding anything stated in any object clause, the company shall obtain such other licenses, permissions, or approvals of the relevant public authorities as may be required under any relevant statutory regulations and laws for the time being in force, to carry out its specific object.
- (ix) The company shall not undertake any trading activities and shall conform to relevant statutory regulations and laws.
- (x) The limit of liability of its members shall not be less than Rs. 100,000/- each.

6. It has been noted that various associations get licence from the Commission, however, do not turn up for registration of company even after a lapse of considerable time for which it has been decided that the Associations must be incorporated under provisions of the Ordinance within a period of three months from the date of the licence.

Sd/-
(Nazir Ahmed Shaheen)
Executive Director (Registration)

Distribution:

1. Chief Executives of all Associations.
2. The Institute of Chartered Accountants of Pakistan, Karachi.
3. The Institute of Cost and Management Accountants of Pakistan, Karachi.
4. The Institute of Corporate Secretaries of Pakistan
5. All Chambers of Commerce and Industries.
6. All CROs.