



SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN

CONSULTATION PAPER

THE COMPANIES (FURTHER ISSUE OF SHARES) REGULATIONS, 2020 (REQUIREMENT OF NO OVERDUES OR DEFAULTS APPEARING IN THE CREDIT INFORMATION BUREAU REPORT OF ISSUING COMPANIES IN CASE OF RIGHT ISSUE)



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The objective of consultation paper is to seek stakeholders' feedback as required under section 512 of the Companies Act, 2017 on the proposed amendments to the Companies (Further Issue of Shares) Regulations, 2020.

Securities & Exchange Commission of Pakistan (SECP) is fully empowered, at its discretion, to accept or not accept a recommendation in accordance with its mandate and policy objectives.

SECP reserves the right not to publish any submission received where SECP considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

1.

Executive Summary

The Securities and Exchange Commission of Pakistan (SECP) plays a pivotal role in shaping the country's capital market. By upholding transparency, fairness, and investor protection, SECP aims to foster an environment that strengthens capital formation, enhances market efficiency, and safeguards investor confidence.

Under the Companies Act, 2017 (the 'Act'), companies may increase their share capital through right issue, which grants existing shareholders the right to subscribe for additional shares in proportion to their current holdings. Presently, the Companies (Further Issue of Shares) Regulations, 2020 (the 'Regulations') require that the board of directors of a company shall ensure that the company issuing right shares and its sponsors, promoters, substantial shareholders and directors do not have overdues or defaults, irrespective of the amount appearing in the report obtained from Credit Information Bureau (CIB).

This consultation paper is being issued to seek comments related to the requirement of a company proceeding with a right issue having a clean CIB, i.e. CIB having no overdues or defaults, when making a right issue.

The objective is to ensure that the regulatory environment supports corporate financing needs for listed companies through the capital market, while adequately protecting the rights of the shareholders.

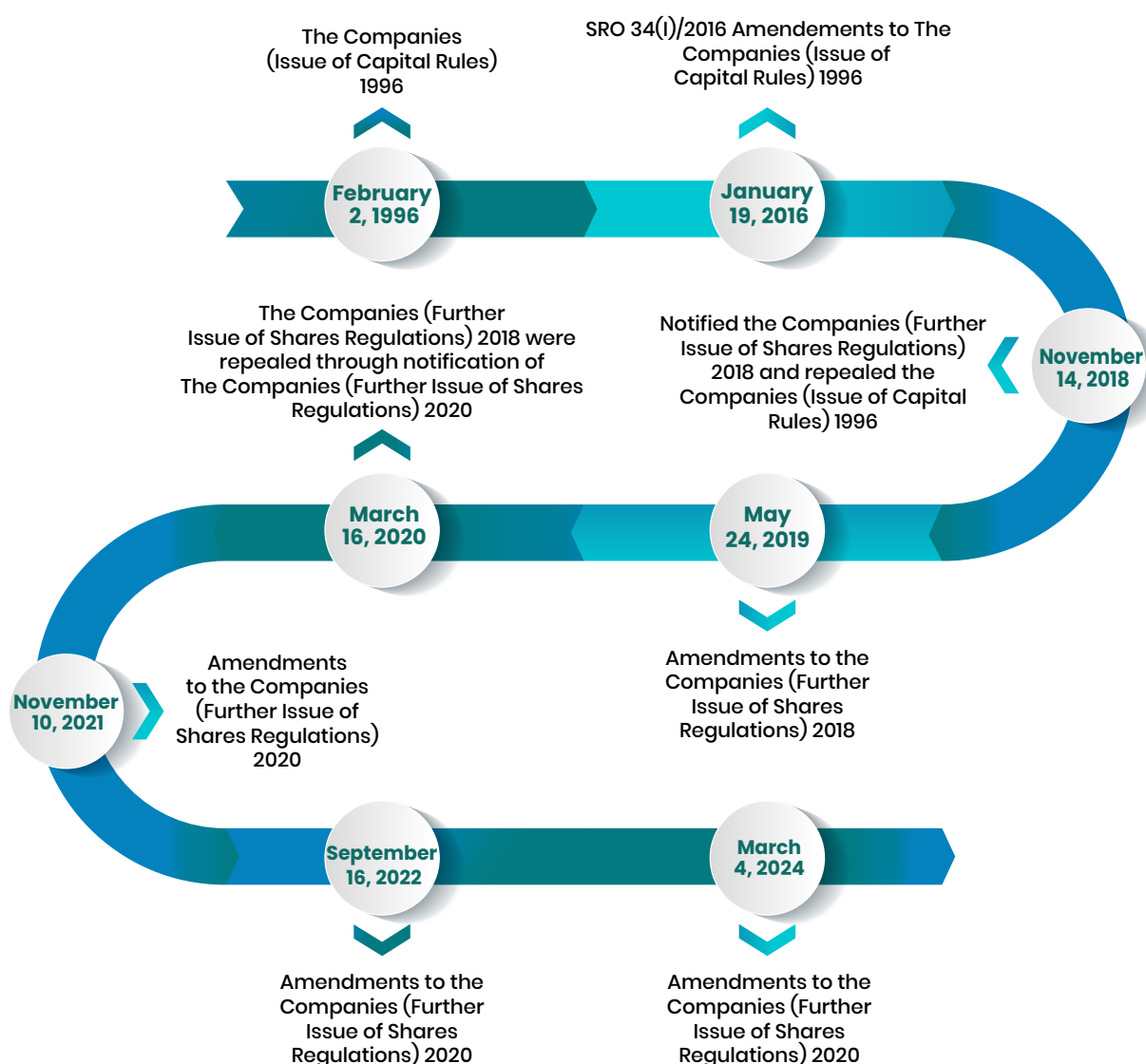
2. Objective of the Consultation Paper

2.1 The objective of this consultation paper is to solicit feedback on the requirement pertaining to a listed company having a clean CIB before announcing a right issue. Stakeholders' perspectives are vital to ensure that regulatory amendments serve both investor protection and corporate financing needs.

2.2 Comments are being solicited through this consultation paper on the following:

- Can the clean CIB requirement for the company issuing right shares be removed, hence allowing the listed companies facing financial stress, to access financing from existing shareholders/sponsors through a right issue?
- Should a threshold for overdues or defaults in the CIB be introduced, below which a company can proceed with right issue?
- Is there need to specify any additional disclosures or conditions, if the clean CIB requirement is to be removed or continued with a specified threshold?

3. History of Amendments in the Capital Issue Rules and Regulations



4. CIB Requirement in Regulatory Framework

4.1 As can be seen from the above, consistent efforts have been made to improve the regulatory framework governing further issue of shares by listed companies.

4.2 In this context, the CIB requirement for right issue was first introduced in the Companies (Further Issue of Shares) Regulations, 2020 vide SRO 1754(I) 2022 dated September 16, 2022 by adding the following provision in Regulation 3:

“(3) In case the right issue size cumulatively during a financial or a calendar year exceeds Rs.750 million or 50% of the paid-up capital of the listed company issuing right shares, whichever is higher, the listed company, in addition to compliance of the general conditions, provided in sub-regulation (1), shall comply with the following conditions, namely: -

(i) no company shall issue right exceeding the above referred threshold if the issuing company, its sponsor, promoter, substantial shareholder and directors have overdues or defaults irrespective of the amount appearing in the report obtained from Credit Information Bureau;”

4.3 The aforesaid amendments were introduced with the aim of introducing mechanisms to assess financial integrity and credit worthiness of a company raising additional funds from its shareholders beyond a certain threshold.

4.4 In subsequent amendments to the Regulations vide SRO 361(I)/2024 dated March 4, 2024, the thresholds-based disclosure requirements were removed and the requirement of clean CIB for the issuing company, its sponsor, promoter, substantial shareholder and directors was made applicable for all right issues, regardless of the right issue size.

4.5 At the time, it was observed that companies would announce right issue but subsequently face complications in case the CIB report of the company or its sponsors, promoters, substantial shareholders or directors did not appear clean. Since the Regulations require that a right issue once announced cannot be varied, postponed, withdrawn or cancelled, this exposed the issuers to liabilities in terms of violation of the Regulations. The following amendments were accordingly introduced in Regulation 3(2)(i):

“The board of directors of the issuing company shall, prior to announcement of the right issue, ensure that the issuing company, its sponsor(s), promoter(s), substantial shareholder(s) and directors shall not have overdues or defaults irrespective of the amount appearing in the report obtained from Credit Information Bureau.”

5. Practical Difficulties for Companies

5.1 Companies and Consultants to the Issue (CTIs) have conveyed concerns to the SECP that under the existing Regulations, even a minor overdue liability can bar a company from raising capital through right issues. Furthermore, in some instances a company may have temporary overdues or defaults due to market conditions, operational challenges, or ongoing restructurings, but these do not necessarily indicate long-term insolvency issues.

- 5.2 Also, even in case of more severe financial distress, shareholders may be willing to bail out a company by putting up necessary financing, which the company, given its condition, may not have access to through normal banking or other channels. Requirement of a clean CIB for such company therefore inhibits a company from revival, restructuring, resumption of operations and ultimately challenges its survival, even when existing shareholders are committed to supporting the company in such circumstances.
- 5.3 It is pertinent to mention that currently, the clean CIB requirement for an issuing company is required only in case of right issue, while preferential allotments by way of other than right offer and employee stock options are not subject to such a condition. This is foreseen as a major hurdle for right issues, which are otherwise perceived as an equitable method of raising capital in terms of maintaining existing shareholders' interest.
- 5.4 On the other hand, retaining the clean CIB requirement for sponsors, promoters, substantial shareholders, and directors can ensure that persons entrusted with managing the affairs of the company or exercising significant control over the company maintain financial discipline; safeguarding governance and investor confidence.

6.

Expected Benefits of removing CIB requirement

- 6.1 Removing the clean CIB requirement for companies may allow companies facing liquidity problems to access equity markets rather than being locked out. In many cases, financial distress may be cyclical or temporary (e.g., delayed receivables, commodity price shocks, or seasonal downturns).
- 6.2 One of the fundamental objectives of listing is to enable companies to access a wider pool of financing alternatives as and when needed. Providing access to equity during turbulent times may enable companies to restructure operations, inject working capital, or refinance existing obligations through the capital market.
- 6.3 Removing this requirement would bring consistency in the regulatory framework in terms of right issue and issuance of shares by way of other than right.

7.

Incidental Risks of removing CIB requirement

- 7.1 The following potential risks that may arise in case of removal of this requirement may be considered:
 - i. Companies with deeper structural insolvency issues may use right issues to raise funds resulting in higher risks of loss to shareholders.
 - ii. Distressed companies may issue right shares at a deep discount to existing face value, forcing minority shareholders to either invest further; or otherwise suffer significant dilution or deterioration in wealth.
 - iii. Companies with overdue liabilities may bypass banking discipline by repeatedly resorting to equity raising, thereby transferring risk from lenders to retail investors.
 - iv. Sponsors/promoters may use rights issues to consolidate control by subscribing when minorities are unable/unwilling to invest in a distressed entity.

8. Additional Conditions/Requirements

- 8.1 The International Financial Reporting Standards (IFRS) already require that a company discloses details of any defaults of principal and interest during the period and the carrying amount of the loans payable in default at the end of the reporting period. Such disclosures, especially in the case of a listed company where financial statements are readily available, can enable investors to make informed decisions on investing further in a company through right issues.
- 8.2 Some additional conditions to balance any potential risks emanating from removal of the requirement of the issuing company having clean CIB to qualify for a right issue, that are being contemplated are:
- Introduce detailed disclosures of any overdues or defaults appearing in the CIB in the right offering document along with appropriate coverage of expected outcome of any debt restructuring negotiations;
 - Require certification from the auditor on the company's going-concern assumption.

9. Study of International Jurisdictions

- 9.1 Jurisdictional study of India, United Kingdom, Singapore and Hong Kong revealed that right issue focuses on disclosures and fair conduct, rather than the issuer's credit standing. Detailed research is as follows:

Jurisdiction	Requirements
Hong Kong	No regulatory requirement for a company to present a clean credit report when issuing rights shares. The regulatory framework emphasizes disclosure, shareholder approval, and procedural compliance, with no link between creditworthiness and eligibility to conduct a right issue.
Singapore	The regulatory framework for right issues emphasizes procedural compliance, transparency, and investor protection. Issuers are required to disclose key terms, follow established timelines, and manage underwriting arrangements. However, there is no requirement for the company to demonstrate a clean credit history or provide a credit report as a condition for proceeding with a right issue. The focus remains on disclosure and fair conduct, rather than the issuer's credit standing.
United Kingdom	The regulatory framework for right issues emphasizes compliance, transparency, and investor protection. Issuers must disclose key terms, maintain an open offer period, obtain shareholder approval, and manage underwriting arrangements. There is no requirement to provide a credit report, with the focus on disclosure and fair conduct rather than credit standing.
India	Right issue regulations focus on eligibility, disclosure, and governance, requiring stock exchange approvals, regularization of partly paid-up shares, financing arrangements, and ensuring promoters or directors are not debarred, wilful defaulters, or fugitive economic offenders. There is no requirement for a credit bureau report, with the focus remaining on transparency, investor protection, and market conduct.

10. Format for Sharing Feedback/Comments

Feedback may be sent via email to Primary Market Approvals and Development Department (PMADD) at capitalissuefeedback@secp.gov.pk or by post at the following address:

Head of Department,
Primary Market Approvals & Development Department,
NICL Building, SECP Head Office,
Jinnah Avenue, Blue Area,
Islamabad.

It is requested that feedback may be submitted as per the below format:

Name of the Commenter			
Name of the related Entity			
Sr. No.	Regulation/ Section No.	Proposed Changes	Rationale

Confidentiality

If you wish to keep all or any part of your submissions and your identity confidential, please indicate the same. In all other cases, your provided comments will be made public, except your contact information.

11. Indicative Timeline

Stage	Date/Timeline	Detail
1.	September 24, 2025	SECP releases Consultation Paper
2.	Within 14 days of issuance of Consultation Paper and placement of notification on SECP website	Comments due on consultation paper
3.	Within 30 days of receipt of comments on the Consultation Paper	Stakeholder consultation sessions
4.	Within 30 days of conclusion of the stakeholder consultation sessions	Notification of final amendments



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