



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

International Affairs, Communication & Coordination (IACC) Department

PRESS RELEASE

FOR IMMEDIATE RELEASE

Section 208 of Companies Ordinance: SECP removes practical difficulties

ISLAMABAD, July 13: In order to remove practical difficulties arising out of the provisions of Section 208 (Investment in associated companies and undertakings) of the Companies Ordinance, 1984, and to bring it in line with the true spirit of the law, the SECP has facilitated further class of companies' vis-à-vis Section 208.

Various private companies had requested the SECP for the relaxation from the requirements of Section 208 as they raise capital through private placement of equity and bank financing and that most of such companies are small family-owned entities. The SECP therefore felt that the compliance with Section 208 is cumbersome for private limited companies and has exempted the private companies, which are not the subsidiaries of public company from the requirements of the Section 208.

Similarly, the SECP felt that the requirements of Section 208 are not feasible for the investment company whose core business is making investments. Considering that non-banking financial companies and the 2008 Notified Entities Regulations already provide limitations for the investment including investment in companies in which the directors of the asset management companies have interest, the SECP has relaxed investment made by an investment company, as defined in Non Banking Financial Companies and Notified Entities Regulations in accordance with its investment policy given in the prospectus, from the provisions of Section 208.

Another significant issue addressed by the SECP is that soliciting shareholder' approval before making routine deposits with associated financial institutions duly licensed by the State Bank of Pakistan, an NBFC duly licensed by the SECP and the Modaraba Management Company is a cumbersome exercise for the companies. The SECP, therefore, has done away with the requirement of Section 208 for such companies. However, such companies should ensure that the rate of return should not be less than prevailing market rate of return on similar deposits or borrowing cost of investing company.

Earlier, the SECP through its notifications had granted exemption to class of companies from the requirement of Section 208 (1) to the extent of obtaining the authority of special resolution only. Various queries have been received from the corporate sector with regard to charging return on investment in the form of loan as given in proviso of Section 208(1). The SECP, therefore, in supersession to its earlier notifications has notified that all classes of companies, which have already been granted exemption from passing of special resolution and matter of charging interest and the rate thereof has been left to companies' discretion.

These changes will take effect once published in the official gazette.

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