



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Press Release

SECP takes action against companies' directors, auditors

ISLAMABAD, May 24: In order to safeguard the investors' interests, the Enforcement Department of the SECP took various regulatory and punitive actions during March and April.

The department ordered inspection of books and accounts of four companies. The inspection had become necessary because of adverse audit opinions from statutory auditors, unlawful inter-corporate financing, non-cooperation on part of company in response to the SECP's call for information or non-confirmation of the balances of assets and liabilities of concerned companies.

Taking notice of abuse of powers by directors of a listed company, the department passed penal orders. The directors had approved an arrangement with an associated company and indulged in making huge unauthorized donations in utter disregard to the legal requirements regarding quorum and disclosure of interest. In another case the SECP imposed penalty on directors of the company for renting out company-owned premises to its associated company without following quorum requirements laid down in the law and for failing to recover timely rentals. Another company was penalized for providing unauthorized loans to the associates. Two companies were found guilty of misstating the accounts for which a fine was imposed on both companies.

Furthermore, penalties were imposed on the statutory auditors of 13 unlisted companies for failing to act in conformity with the statutory requirements. The audit reports issued did not bring out material facts about the affairs of companies. Besides imposing fines, the auditors were advised to discharge their responsibilities with due professionalism, giving an independent and objective opinion on financial statements of the companies. The details of action taken against the auditors were also shared with Institute of Chartered Accountants of Pakistan.

In a related development, the SECP has directed all the non-listed companies, designated as Economically Significant Companies under the 1984 Companies Ordinance to appoint a chartered accountant firm as external auditor holding a satisfactory rating under the Quality Control Review Program of the ICAP, w.e.f. the financial year beginning on or after July 1, 2012.

The department actively oversees the transactions relating to substantial acquisition of shares of companies. In this regard, the proceedings were initiated against the acquirer of a company in cement sector, which failed to comply with the requirements of Takeovers Ordinance. One of the directors of the said company also filed a

complaint in the High Court on similar grounds. After detailed analysis and keeping in view the consent order of High Court, the SECP directed the acquirer to conduct fresh valuation of the company, by a valuer duly registered with the Pakistan Bankers Association.

Based on application under the Companies (Issue of Capital Rules), 1996, the SECP granted approval to two listed companies for issuance of further capital through conversion of loans from directors.

Similarly, a listed company was exempted from the requirement of fresh valuation of sister concerns and allowed to issue ordinary shares for consideration other than cash against the acquisition of shares. An addition, a request of a company was approved for granting a loan to CEO of a company. As part of regulating the group regime, certificate of registration as a group was issued to a company and its wholly owned subsidiary. A private limited company, engaged in the business of logistics and transportation, was exempted from the requirement to prepare consolidated financial statements in respect of its subsidiary owing to circumstances of case presented thereof.

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