

December 06, 2000 SECP issues Notification No. SRO 865 (1)/2000- dated December 6, 2000.

Section 208 of the Companies Ordinance, 1984 provides that a company shall not make any investment in any of its associated companies or undertakings except under the authority of a special resolution which shall indicate the nature and amount of investment and terms and conditions attached thereto. Sub-section (b) of section 160 further provides that where a special business is to be transacted, there shall be annexed to the notice of meeting a statement setting out all material facts concerning such business including in particular, the nature and extent of interest, if any, therein of every director, whether directly or indirectly.

Having noticed that some of the companies while issuing notice for general meeting were not making adequate and material disclosure to their shareholders, the erstwhile Corporate Law Authority (Now SECP) issued a Notification bearing No. 634(1)/96- dated July 30, 1996 requiring the companies to disclose, among others, information relating to names of investee companies or associated companies, nature, amount and extent of investment, price at which shares will be purchased, source of funds from where such shares will be purchased, period for which investment will be made, purpose of investment and benefit likely to accrue to the company and the shareholders from the said investment. Similarly in case of loans and advances, the companies were required to give the name of the borrower companies, the rate of interest to be charged, period for which these advances are being made and benefit likely to accrue to the company.

After sometime, it was again noticed that the information provided by some companies is still inadequate and in order to make disclosure more meaningful and comprehensive a fresh Notification No. SRO. 865 dated December 6, 2000 has been issued substituting the earlier notification No. 634 (1)/96- dated July 30, 1996. The additional disclosure required through this notification relates to average market price of shares during the preceding six months intended to be purchased, break-up value of shares on the basis of last published financial statement, the earning per share of the investee company in the last three years and interest of directors and their relatives in the investee company. As regards loans and advances, the additional information required pertaining to current ratio of the investee company on the basis of last published financial statements, ratio of mark up to be charge, repayment schedule and reasons and justification if collateral security has not been obtained. Further, the company has been asked to state that in case of any decision to make investment under an authority of a resolution is not implemented till the holding of subsequent general meeting, the status of the resolution previously passed indicating the reasons for not having made investment so far and major changes in the financial position of the investee company since the date of last resolution. It is hoped that with the additional requirement, the companies would provide more meaningful disclosure to their shareholders to provide them an opportunity to consider the relevant facts before passing special resolutions authorising the companies to make investment in their associated companies.

