

Consultation Paper

Proposed Amendments in the Companies (Further Issue of Shares) Regulations, 2020

The objective of issuance of this concept 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.

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Last date for submission of comments: October 10, 2023

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Contents

- 1. Executive Summary.....2**
- 2. Objective of the Consultation Paper3**
- 3. Background3**
- 4. Salient Features.....3**
- 5. Format for sharing feedback/comments5**
- 6. Indicative Timeline.....5**

1. Executive Summary

The consultation paper is being published for the purpose of eliciting public comments on the draft amendments proposed in the Companies (Further Issue of Shares) Regulations, 2020 (the “Regulations”) within a period of fourteen days (14) days from the date of its placement on the SECP website. The notification is published in terms of powers conferred upon the Commission under Section 512 of the Companies Act, 2017 (“the Act”).

The SECP previously notified amendments to the Regulations vide S.R.O. 1754 (I)/2022 dated September 16, 2022 for aligning the same with global best practices through introduction of enhanced risk disclosure requirements and increased transparency measures. Major amendments entailed adoption of a disclosure-based regime in preparation of offering document for issuance of right shares, standardisation of different compliance requirements based on the size of right issue, provision of exit opportunity to dissenting shareholders, imposition of lock-in clause on the sponsors, standard lock-in clause for persons other than sponsors in further issue other than right, reporting of proceeds utilization by the statutory auditors and optional concepts of Minimum Level of Subscription (MLS) and ‘Applications Supported by Blocked Amounts’ (ASBA).

For further issue of shares other than right, minimum contents of valuation report were introduced along with various procedural formalities to be complied by the companies. A standardized version of the various conditions previously imposed by the Commission on companies, sponsors and incoming shareholders while processing applications for further issuance of shares by way of other than right offer, were also incorporated in the Regulations.

A consolidated version of the currently applicable Regulations can be accessed at <https://www.secp.gov.pk/document/the-companies-further-issue-of-capital-regulations-2020-amended-till-september-16-2022/?wpdmdl=45863&refresh=64b8e0df598231689837791>

Subsequent to the aforesaid notification, the SECP has been evaluating impact of the amendments in light of views/feedback received from stakeholders, key learnings from applications received pursuant to the amended regulations and the evolving trends and practices regarding further issuance of capital in other jurisdictions. Various areas of improvement have resultantly been identified for providing greater clarity; introducing enhanced and more customized disclosure requirements; and bringing changes that make the regulations more efficient, dynamic and flexible in catering to the various types and categories of further issuance of shares based on the underlying objectives. The proposed draft amendments also aim to balance roles and responsibilities of issuers in a manner that facilitates capital formation while simultaneously promoting protection of the rights of minority shareholders.

The major draft amendments being proposed to the Regulations are summarized in section 4 of this paper.

2. Objective of the Consultation Paper

This Consultation Paper is being published for eliciting public opinion on the proposed draft amendments to the Regulations.

3. Background

The SECP notified amendments to the Regulations vide S.R.O. 1754 (I)/2022 dated September 16, 2022. The amendments were introduced for aligning the regulations with global best practices through introduction of enhanced disclosure requirements and increased transparency measures.

Subsequent to the notification, the SECP has been evaluating impact of the amendments in light of views/feedback received from stakeholders, assessment of market perceptions regarding the overall regime, key learnings from applications received pursuant to the amended regulations and the evolving trends and practices regarding further issuance of capital in other jurisdictions.

Various areas of improvement have resultantly been identified for bringing greater clarity, introducing more customized disclosure requirements, and introducing changes that make the regulations more efficient, dynamic and flexible. The proposed amendments also aim to balance roles and responsibilities of issuers in a manner that facilitates capital formation while simultaneously promoting protection of the rights of minority shareholders.

The instant draft amendments are accordingly expected to build investor confidence through further transparency, facilitate issuers in further issuance of capital and optimize the capital formation processes under the further issue of capital regime.

4. Salient Features

The major areas of amendments being proposed are summarized below:

a) In cases of right issues:

- (i) To streamline the right issuance process, thresholds prescribed under the existing sub-regulations (2) and (3) of Regulation 3 are being omitted;
- (ii) Regulatory requirements specific to the size of the right issue in sub-regulations (2) and (3) of Regulation 3 are merged in a manner that standardized requirements, processes and disclosures, including those required for the higher threshold of right issue size, become applicable for all right issues irrespective of the issue size;
- (iii) Consequential amendments are proposed through-out the regulations in line with above proposed amendments.
- (iv) Given that right issue once announced by the board, cannot be varied, postponed, withdrawn or cancelled, the responsibility of ensuring clear CIB report of sponsors,

promoters, substantial shareholders & directors of issuing company is proposed to be placed on the board of directors of the issuing company.

- (v) Given the shift towards a disclosure-based regime and taking into consideration that right issue is the discretion of the board of directors of a company, requirements for the SECP to provide comments on the right offer document is being omitted. Accordingly, only the requirement for the issuer to submit the final offer document to the SECP is proposed to be added.
- (vi) Clarity is added in relation to placement of the draft right offer document on the PSX and issuer's website only if the issuing company opts for seeking public comments on the right offer document. In case public comments are not sought, only the final offer document is being required to be placed on the PSX website.
- (vii) Further clarity is proposed in Schedule I for more standardized and clear disclosures in the right offer document with respect to purpose of issue, issuer's group structure, risk factors specific to issue/issuer and their impact on operations/performance of the issuer.

b) In case of other than right issues:

- (i) In cases where further issuance of shares is contingent upon a future event (for e.g. conversion of preference shares or conversion of redeemable capital of banks), room is proposed to be created for non-applicability of certain provisions, as compliance with such requirements is not possible at the time of seeking approval under section 83(1)(b) of the Act (for e.g. names of potential shareholders cannot be known at the time of board meeting; issuance of shares within 60 days of SECP approval is not possible, CIBs of potential shareholders cannot be obtained etc.).

Clauses under regulation 5(1) are also renumbered for further clarity and ease of referencing.

- (ii) To facilitate issuers in overcoming any practical difficulties in complying with the regulations, flexibility is added for enabling grant of further extension of 30 days by the Commission for issuance of shares by the company.
- (iii) Lock in period for persons other than sponsors to retain their shareholding arising as a result of subject issuance is being reduced to six months and the different lock-in periods based on percentage of shareholding of such persons is proposed to be omitted.
- (iv) For sponsors, requirement is being introduced to report compliance status to the Commission with respect to lock-in clause imposed as a result of the further issuance.

c) Reporting requirements:

- (i) Regulation 10 (1): For removing duplication, reporting of allotment of shares in case of right issue is proposed to be deleted and shall be made part of Form 3 of the Companies (General Provisions and Forms) Regulations, 2018.
- (ii) Regulation 10 (2): Reporting of proceed utilization requirements are consolidated under regulation 10.

Draft notification of proposed amendments is available at the following link on SECP website:

<https://www.secp.gov.pk/document/notification-draft-amendments-to-the-companies-further-issue-of-shares-regulations-2020/?wpdmdl=49243&refresh=6513be4d5c1091695792717>

5. Format for sharing feedback/comments

Any feedback be sent via email to Primary Market Approvals and Development Department at capitalissuefeedback@secp.gov.pk or by post at the following address:

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

Name	
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.			

6. Indicative Timeline

Stage	Date/Timeline	Detail
1	September 27, 2023	SECP releases Consultation Paper
2	Within 14 days of issuance of Consultation Paper and placement of notification on SECP website.	Public Comments
3	Within 30 days of receipt of comments on the Consultation Paper	Stakeholders consultation session
4	Within 30 days of conclusion of stakeholder consultation session	Notification of the final amendments to the Regulations.
