

Guide Series



SECP

**SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN**

SINGLE MEMBER COMPANY

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DISCLAIMER

The Guide has been published with the intention to create an awareness of the concept of the relevant matters. However, the Guide does not tell everything and the opinions or legal interpretations, contained in the booklet are circumstantial and may vary under different situations. If the reader is in doubt while dealing with any specific condition, it is recommended to refer to the Companies Act, 2017 and allied laws.

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Benefits to Form a Company

There are several advantages of registering a company under the provisions of the Companies Act, 2017; namely:

- **Distinct legal entity:** A company has a separate legal entity from its members.
- **Limited liabilities that protects personal assets:** Shareholders of a company have no personal liabilities, and are liable only to the extent of their investment in share capital of the entity.
- **Easy transferability of ownership:** Transfer of shares of the company is easy as compared to businesses.
- **Perpetual succession:** A company is the most enduring legal corporate structure, having unlimited life, extending beyond the illness or death of its owners, directors, officers, managers or shareholders.
- **Management:** Separation of management from the ownership.
- **Agency Relationship:** Shareholders elect a Board of Directors, who are charged with the responsibility to run the affairs of the company, therefore the benefits of agency relationship can be availed.
- **Defined legal framework:** A company has a defined legal framework around which it carries out its business operations i.e., Memorandum and Articles of Association. Further, it operates within the stipulated laws i.e., the Companies Act, 2017, and rules and regulations made thereunder.
- **Ability of pooling of funds:** Capital can be easily raised by a company through the issuance of shares.
- **Contribution to the development of the country:** A company not only promotes its own business but also contributes in the development of the country's economy as a whole.
- **Increase in revenues:** Companies contribute to increase tax revenues of the Government and help in creating employment opportunities.

The concept of having only a single shareholder/member in the company has been prevailing since the erstwhile Companies Ordinance, 1984. A Single Member Company ("SMC") means a company formed with only one person as the sole shareholder/member. The objective of establishing a SMC is basically to escalate the status of entrepreneurs/proprietorship in the market who are widely contributing to the economy. The concept of SMC lays the path for small-sized entrepreneurs and other service providers to have a legal status and venture into business for expanding their opportunities with minimal procedural/compliances of the law.

Moreover, the concept of single member companies is preferred by start-ups/entrepreneurs/sole proprietors whose businesses are in their nascent stages of growth.

Formation of Single Member Company

Under Definitions in the Companies Act, 2017 Section 2 (65) a “single member company” means a company which has only one Member. Such companies are usually created when there is one promoter/founder/shareholder. A single member can either be a “**natural person**” or a “**body corporate**”; which can also be a foreign company.

It is classified as a private company limited by shares by law it is prohibited from inviting the public to subscribe for any shares of the company. Keeping the spirit of being a sole shareholding/member in the company, under the provisions of the law the share(s) of an SMC cannot be registered in the name of two or more persons to hold one or more shares jointly.

For incorporating a company under the provisions of Companies Act, 2017, the applicant is required to complete/submit App-1 (Application for Reservation of Company Name for New Incorporation) specified in the Companies Regulations, 2024 (Section 10(4), 12 & 442 and Regulations 3, 4 & 30)

At the time of incorporation of a SMC, the single member is mandatorily required to nominate an individual as a “nominee” so that in the event of death of the member or the member being incapacitated the company affairs may not come to a standstill.

The nominee shall be responsible for the following:

- (i) transfer the shares to the legal heirs of the deceased subject to succession to be determined under the Islamic law of inheritance and in case of a non-Muslim members, as per their respective law; and
- (ii) manage the affairs of the company as a trustee, till such time the title of shares are transferred:

Provided that where the transfer by virtue of the above provision is made to more than one legal heir, the company shall cease to be a single member company and comply with the provisions of section 47 of the Act

SMCs must have at least one director and a Chief Executive Officer.

Transfer of Shares of a Member of SMC to a New Member

If the membership of a SMC is transferred to a new member, the company is required to file with the registrar, the relevant returns i.e. Form 3 and Form 9. (Format of forms are given on the link: www.secp.gov.pk).

Conversion of Status

A single member company can be converted into a private company on increase of the number of its members to more than one. The company shall pass a special resolution for change of status and alter its articles and transfer the shares. The company shall appoint and elect one or more additional directors and notify the registrar of the change of status. The company is required to intimate the registrar by filing the required application/statutory returns i.e. Form 9, Form 3, Form 26, along with amended Memorandum and Article of Association.

Company becoming a Single Member Company

A company having two or more members shall convert its status into single member company by passing a special resolution for change of its status, making necessary alteration in its articles and obtaining the approval of the SECP. The company shall transfer shares in the name of single member. The company is required to intimate the registrar by filing the required application/statutory returns.

Exemptions for SMCs/Advantages of SMCs

Under the provisions of the Companies Act, 2017, an SMC is exempted from stringent legal compliances such as the following:

- It is not required to appoint a company secretary;
- A single member and director will constitute the quorum in the general meeting;
- It is exempt from appointment of legal adviser;
- It is exempt from calling of general/board meetings/quorum.
- The threshold of paid up capital should be Rs.10,000,000 and above for filing audited financial statements.
- The law provides relieve in terms of Section 132 of the law; whereby they are exempted from convening Annual General Meetings.
- Leeway has also been granted pursuant to Section 130, of the law, whereby they have been exempted from filing Annual Returns, in case of no change.
- In terms of Section 47 of the law, it can be converted into a private company on increase of the number of its members/directors to more than one.
- The director(s) are required to maintain proper books of accounts in accordance with the provisions of Section 220.
- However, in terms of the proviso of Section 223 (5) of the law, SMCs are not compulsorily required to have their accounts audited from an auditor.
- Under Section 14 of the law a single member company is required to report change in nominee or change in particulars thereof or appointment in case of conversion of status to a single member company, within 14 days of the change or conversion of status to the registrar in the prescribed form, being Form 9 of the Companies Regulations, 2024.

Filing Requirements

The following is a list of statutory returns required to be filed by SMCs with the registrar:

	Statutory Return	Form
1	Returns of Allotment of Shares	3
2	Notice of appointment or Change of Nominee or Change in his particulars	9
3	Notice of Change in situation of registered office or any change therein	21
4	Particulars of Change in Change in Directors and Officers	9
5	Increase of Authorized Capital of the Company	7
6.	Special Resolution	26