



CONSULTATION PAPER



Reduction in Timelines for Issuance of Bonus and Right Shares by Listed Companies

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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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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.

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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.

1. Executive Summary

The Securities and Exchange Commission of Pakistan (SECP) being the apex regulator of the capital markets is committed towards developing an efficient, convenient and sustainable environment for capital formation within the country.

SECP has observed that the prevailing regulatory framework governing bonus and right issues can be optimized to significantly reduce the time period from date of announcement till credit of shares in the account of shareholders.

Given that the current regulatory processes do not capture the level of digitalization and use of technology in our capital market, the shareholders of listed companies can experience significant delays in receiving their entitlements in their depository accounts, leading to potential missed gains and reduced liquidity.

This paper accordingly elaborates the existing and proposed timelines for the following:

- i. Credit of bonus shares in the shareholders account, from the date of board announcement (Interim bonus issue) or from the date of notice period of the annual general meeting (AGM) where bonus is declared in AGM (final bonus issue); and
- ii. Credit of right shares in the shareholders account, from the date of board announcement.

It is envisaged that streamlining the overall processes can result in reducing the time for credit of right and bonus shares, thereby enhancing market efficiency and enabling quicker capital mobilization. Following reduction in timelines is being proposed:

	Existing Timeline (approx.)	Proposed Timeline
Interim Bonus	85 days	33 days
Final Bonus	51 days	36 days
Right	181 days	90 days

The Companies (Further Issue of Shares) Regulations, 2020 (the Regulations) can be accessed at <https://www.secp.gov.pk/document/the-companies-further-issue-of-shares-regulations-2020-updated-march-4-2024/?wpdmdl=51188&refresh=673d727c87e3b1732080252>

2. Objective of the Consultation Paper

This consultation paper is being published for the purpose of eliciting public comments on proposed improvements in the overall right and bonus issue processes for reducing the time period from date of announcement till credit of shares in the account of shareholders. Improving the process would entail necessary amendments in the Regulations, with consequential changes to the Pakistan Stock Exchange Limited (PSX) Rulebook and the Procedures for Handling of Rights into Central Depository System.

3. Identification of Potential Areas - Regulatory Review

Issuance of bonus and right shares is dealt under the provisions of Section 82 and 83 of the Companies Act, 2017 (the "Act") read with Regulation 3 and 4 of the Regulations.

Capital Market Institutions have emphasized the importance of certain timelines due to the complexities associated with physical shares. However, discussions with the Central Depository Company of Pakistan Limited (CDC) reveal that approximately 85% of shares are in book-entry form. This transition provides an opportunity to revisit and optimize existing timelines, ensuring efficiency and alignment with modern practices. The proposed changes in timelines are expected to deliver the following key benefits:

- a) **Bonus Issue:** Introducing a defined timeframe for each process involved in issuance of bonus shares, including credit of bonus shares to eligible shareholders' account is a proactive step toward enhancing operational efficiency and boosting confidence in capital markets. Currently, the bonus share issuance process, initiated by the board of directors or declaration at annual general meeting, can face delays due to absence of standardized timelines. A time-bound framework would improve transparency, ensuring shareholders are promptly informed and able to trade their entitlements sooner, thereby increasing market liquidity and activity.
- b) **Right Issue:** The rights issue process, while comprehensive under current regulations, presents a significant opportunity for refinement to better serve the needs of companies and investors. Spanning up to 181 days, the process involves multiple stages, including the board's resolution, preparation of the Right Offer Document, regulatory approvals, and credit of shares. The extended timeline can delay capital infusion and potentially hinder companies from addressing urgent funding requirements effectively.

The SECP has proactively engaged with key stakeholders, including PSX, CDC, and NCCPL to address these challenges and identify areas for improvement. Streamlining the process by introducing defined timelines for each stage can significantly enhance efficiency, ensuring quicker access to funds and bolstering confidence in capital markets. By implementing these changes, the rights and bonus issue frameworks can better align with the dynamic needs of businesses while maintaining regulatory oversight.

4. Potential Areas for Improvement

a) Proposed change in timelines of interim bonus Issue are as follows:

Interim Bonus Issue						
Sr.	Existing Requirement	Process	Existing Timeline	Proposed Timeline	Proposed Amendment	Rationale
1.	Regulation 4(1) of the Regulations: A company, in accordance with the provisions of its articles of association, may issue bonus shares subject to the following conditions, namely: (i) the issue of bonus shares is approved by the board; (ii) the resolution of board approving to issue bonus shares is communicated to the Commission and the securities exchange on the same day i.e. on the day of the decision;	Board Announcement approving Bonus Issue and intimation of Bonus issue to Commission and PSX.	T	T	-	-
2.	Nil	Announcement of Book closure	T+25 (25 days) (Estimated number of days based on data obtained from CMIIs). Timeframe for announcement of the book closure is not prescribed. However, 7 days' notice period is required to be given for book closure under Section 125 of Companies Act, 2017.	T+15 (15 days)	Regulation 4(3) A company shall commence book closure for determining entitlement to an interim bonus issue within fifteen days of the board's resolution. Provided that the book closure shall not exceed three (03) working days.	Currently there is no timeline to announce the book closure which causes inefficiency in the bonus issue process. Book closure should start within 15 days of the date of board announcement and these 15 days should be inclusive of the 7 days' notice period required under section 125 of the Companies Act, 2017.
3.	Section 125 of Companies Act, 2017 Company may close its register of members for any period or periods not exceeding	Book Closure Period to determine the entitlement of the bonus issue	T+55 (30 days)	T+18 (3 days)	Same as proposed in the proviso above.	As per discussion with CDC, 85% of shares are in book entry form. It is therefore possible to reduce the book closure period to

	in the whole thirty days in each year.					make the process more efficient. This is also in line with the Companies (Distribution of Dividends) Regulations, 2017. Section 125 of the Companies Act, 2017 permits a total of 30 days of book closure per year. However, we have assumed that the company may utilize the full 30 days for a single book closure.
4.	PSX Rule Book Clause 5.8.2(a) A listed Company shall issue bonus shares certificates within a period of thirty (30) days from the date of re-opening of the share transfer register closed for this purpose:	Allotment of bonus shares	T+85 (30 days)	T+33 (15 days)	PSX Rule Book 5.8.2 (a) A listed Company shall issue interim bonus shares certificates within a period of fifteen (15) thirty (30) days from the date of re-opening of the share transfer register closed for this purpose or in case of bonus declared in AGM, within fifteen (15) days following approval of the shareholders at AGM.	15 days to allot shares is aligned with the following clause of tax ordinance, which will also enable the company to collect the tax before issuing the shares: As per Clause 236Z of Income tax ordinance every company will be required to collect 10% tax from each shareholder at the time of issuance of bonus shares. Tax shall be deposited by the company, within 15 days of closure of books, whether or not tax has been collected by the company.

b) Proposed changes in timelines of final bonus issue are as follows:

Final Bonus Issue						
Sr.	Existing Requirement	Process	Existing Timelines	Proposed Timelines	Proposed Amendment	Rationale
1.	Regulation 4 1(i) of The Companies (Further Issue of Shares) Regulations, 2020 (the "Regulations").	Board Announcement approving Bonus Issue and intimation of Bonus issue	T	T	-	Currently no standardized timeline is provided for issuance of notice of AGM, after the bonus issue is approved by the board. This may cause delays in the

	<p>(1) A company, in accordance with the provisions of its articles of association, may issue bonus shares subject to the following conditions, namely: -</p> <p>(i) the issue of bonus shares is approved by the board;</p> <p>(ii) the resolution of board approving to issue bonus shares is communicated to the Commission and the securities exchange on the same day i.e. on the day of the decision;</p>	to Commission and PSX.				overall process for issuance of bonus shares. It is being envisaged that a maximum timeframe may be specified for the same.
2.	<p>Section 132(3) of the Companies Act, 2017</p> <p>The notice of an annual general meeting shall be sent to the members and every person who is entitled to receive notice of general meetings at least twenty-one days before the date fixed for the meeting:</p>	Annual General Meeting, to consider bonus shares as recommended by the Directors. This notice period also includes the book closure period for entitlement of the bonus shares.	T+21 (21 days) (These 21 days include the notice of book closure and book closure period).	T+21 (21 days)	-	Final dividend is declared in AGM on recommendation of the directors. The Companies Act provides that AGM should be conducted within 120 days of the close of the financial year. Further extension of 30 days is allowed. Therefore, the date of notice of the AGM is being taken as the start date.
3.	<p>PSX Rule Book Clause 5.8.2 (a)</p> <p>A listed Company shall issue bonus shares certificates within a period of thirty (30) days from the date of re-opening of the share transfer register closed for this purpose:</p>	Allotment of bonus shares	T+51 (30 days)	T+36 (15 days)	PSX Rule Book 5.8.2 (a) A listed Company shall issue interim bonus shares certificates within a period of fifteen (15) thirty (30) days from the date of re-opening of the share transfer register closed for this purpose or in case of bonus declared in AGM, within fifteen (15) days following approval of the shareholders at AGM.	Same as described in point 4 of the Interim bonus issue table above.

c) Proposed changes in right issue timelines are as follows:

Sr	Existing Requirement	Process	Existing Timeline	Proposed Timeline*	Proposed Amendment	Rationale
1.	Regulation 3(1)(i) of the Regulations Board shall approve the decision to increase share capital and the said decision shall be communicated on the same day to the Commission and to the securities exchange for public dissemination;	Board Announcement and communication to PSX and SECP.	T	T	-	-
2.	Regulation 3(2)(iv) of the Regulations. The draft offer document shall be submitted to PSX and the Commission within 45 days of the date of announcement.....	Submission of draft offer document to PSX and SECP.	T+45 (45 days)	T+25 (25 days)	Regulation 3(2)(iv) of the Regulations. the draft offer document shall be submitted to PSX and the Commission within 25 45 days of the date of announcement...	Proposed reduction in time for submission of offering document will reduce uncertainty in the market, provide investors with timely information and may encourage more dynamic participation in capital markets.
3.	Regulation 3(2)(v) of the Regulations. PSX and the Commission shall, within 15 days of the filing of draft offer document, share their observations and changes with the company, if any.	Obtain comments of PSX and SECP.	T+60 (15 days)	T+40 (15 days)	-	-
4.	Regulation 3(2)(vi) of the Regulations the board shall ensure that draft offer document is updated in light of the public comments, (if opted for), and PSX and the Commission comments/observations, and shall submit final offer document to PSX and the Commission within 20 days from the date of comments/observations. Simultaneously, the Board shall also disclose in tabular form on PSX and company website as per the Schedule II, all the comments received	Updating draft offer document in light of the aforesaid comments.	T+80 (20 days)	T+45 (5 days)	3(2)(vi) the board shall ensure that draft offer document is updated in light of the public comments, (if opted for), and PSX and the Commission comments/observations, and shall submit final offer document to PSX and the Commission within 20 5 days from the date of comments/observations. Simultaneously, the Board shall	To enhance efficiency and expedite the process, it is proposed to reduce the timeframe for incorporating PSX and SECP comments on the right offer document from 20 days to 5 days, as all comments are discussed beforehand with the issuer/consultant and can be easily incorporated in the right offer document.

	along with the explanations as to how they are addressed;				also disclose in tabular form on PSX and company website as per the Schedule II, all the comments received along with the explanations as to how they are addressed;	
5.	Nil	Notice of book closure and announcement of book closure.	T+87 (7 days) Timeframe for announcement of book closure is not prescribed. However, 7 days' notice period is required to be given for book closure under Section 125 of Companies Act, 2017.	T+60 (15 days)	Following new regulation to be added; 3(2)(vii)(a) a company shall ensure that book closure shall start for determination of right shares entitlement, within fifteen days of the date on which the final offer document is placed on PSX website. Provided further that book closure period shall not be more than 3 working days.	Currently there is no timeline to announce the book closure which can result in delay in the right issue process. Book closure should start within 15 days of the date of placing final offer document on PSX website, and these 15 days should be inclusive of the 7 days' notice period required for the book closure as provided in section 125 of the Companies Act, 2017. Similar timeline is also provided in Companies (Distribution of Dividends) Regulations, 2017.
6.	Section 125 of Companies Act, 2017 Company may close its register of members for any period or periods not exceeding in the whole thirty days in each year.	Book closure period.	T+117 (30 days) As per the provisions of section 125 of the Companies Act, 2017 a company may close its register of members for any period or periods not exceeding in the whole thirty days in each year.	T+63 (3 days)	Same as proposed in the proviso above.	As per discussion with CDC, 85% of shares are in book entry form therefore it is possible to reduce the book closure period to make the process more efficient. This is also in line with the Companies (Distribution of Dividends) Regulations, 2017. It may be noted that 30 days of book closure are for the entire year. However, we have considered that the company may utilize entire 30 days for single book closure.
7.	Procedures for handling of Rights in to CDS- Clause 4	Credit of LoR	T+132 (15 days)	T+65 (2 days)	Procedures for handling Right in to CDS-Clause 4	2 working days/business days timeline is proposed for credit of LoR as CDC has cited that

	<p>Credit of LOR of rights into CDS – within 1 working / business day after reopening of share transfer books.</p> <p>Clause 5 of CDC Procedures for handling of Right Issues.</p> <p>Physical LOR: Physical Letter of Rights against securities held in physical form to be issued by the issuer in jumbo form within 15 days from the reopening of share transfer books.</p>				<p>Credit of LOR of rights into CDS within 2 1 working / business days after reopening of share transfer books.</p>	<p>existing 1-day timeline is insufficient.</p> <p>Timelines shall be applicable for both the physical and shares in book entry form.</p> <p>It is anticipated that proposed timeline will also encourage physical shareholders to convert shares in book entry form to start trading of LoR.</p>
8.	Nil	Start of trading after credit of LoR	Not defined	T+67 (2 days)	<p>PSX Rule Book 10.5.2(b) (b) The Exchange shall allow trading of LoRs with in two working days of the credit of LoRs in CDS and The Exchange may allow trading in the LoRs for a period not less than fifteen days and not exceeding thirty days prior to the last date of payment fixed by the Issuer and shall discontinue its trading at least three five (35) Working/Settlement Days prior to the last date of payment.</p>	<p>Currently there is no prescribed timeline for start of trading of LoR after credit in shareholders account. Therefore, 2 days is proposed to make the process efficient and eliminate any time lag. Further, the time period for payment against right shares by the shareholders is reduced from 5 days to 3 days.</p>
9.	<p>Section 83 (1)(a)(ii) of the Act</p> <p>The letter of offer shall state the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;</p>	Trading days of LoR	T+162 (30 days)	T+82 (15 days)	Same as above.	<p>The Companies Act, 2017 requires that time period for acceptance of offer shall not be less than fifteen days and not exceed thirty days from the date of the offer. However, given that the entire process is automated and LORs of listed companies are traded on PSX and prior notice of right offer is</p>

	PSX Rule Book 10.5.2(b) The Exchange may allow trading in the LORs for a period not less than fifteen days and not exceeding thirty days prior to the last date of payment fixed by the Issuer....					also disseminated to all shareholders in advance, therefore it is proposed that maximum time of 15 days may be provided.
10	PSX Rule Book 10.5.2(b) Issuer shall discontinue its trading at least five (5) Working/Settlement Days prior to the last date of payment.	Payment of right issue	T+167 (5 days)	T+85 (3 days)	Same as above.	As proposed above, the time period for payment against right shares by the shareholders is reduced from 5 days to 3 days.
11	Clause 8 (vii) of Schedule I of the Regulations. After payment has been received by the Company's banker(s), the Right Securities will be credited into respective CDS Accounts within 14 business days from the last payment date. Paid Right Subscription Request will not be traded or transferred. Procedures for handling Right in to CDS-Clause 12	Credit of shares in shareholders account.	T+181 (14 days)	T+90 (5 days)	Clause 8 (vii) of Schedule I of the Regulations. After payment has been received by the Company's banker(s), the Right Securities will be credited into respective CDS Accounts within 514 514 business days from the last payment date. Paid Right Subscription Request will not be traded or transferred. Consequential amendments will also be required in Procedure for handling Rights in CDS.	As per discussion with CMIs, timeline to credit shares can be reduced to 5 working days which may improve the right issue process timelines.

Note 1: It is assumed that working days, where applicable, fall within business days of the week; therefore, no adjustments have been made to convert working days into calendar days.

Note 2: Section 125 of the Companies Act, 2017 specifies that the company by giving 07 days' notice can close its register of members for a period not exceeding thirty days in a year, extendable for a further period of fifteen days with approval of the SECP. If said section is amended to capture automation of procedures and processes due to technological advancements, the above timelines can be reduced further.

5. Format for sharing feedback/comments

Feedback may be sent via email to Primary Market Approvals and Development Department (PMADD) at capitalissuefeedback@secp.gov.pk or by post at the following address:

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

Name of the Commenter			
Name of the related Entity			
Sr. No.	Regulation/ Section No.	Proposed Changes	Rationale

Confidentiality
<i>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.</i>

6. Indicative Timeline

Stage	Date/Timeline	Detail
1.	dd-mm-yy	SECP releases Consultation Paper
2.	Within 10 days of issuance of Consultation Paper and placement of notification on SECP website	Comments due on consultation paper
3.	Within 30 days of receipt of comments on the Consultation Paper	Stakeholder consultation sessions
4.	Within 30 days of conclusion of the stakeholder consultation sessions	Notification of final amendments to the Regulations, Pakistan Stock Exchange Limited (PSX) Rulebook and Procedures for Handling of Rights into CDS.
