

SENATE OF PAKISTAN

REPORT NO.20 OF 2019



House of the Federation

REPORT OF THE STANDING COMMITTEE ON FINANCE, REVENUE AND ECONOMIC AFFAIRS

ON

THE COMPANIES (AMENDMENT) BILL, 2019, INTRODUCED BY
SENATOR GHOUS MUHAMMAD KHAN NIAZI,
ON 6TH MAY, 2019.

PRESENTED BY:

SENATOR FAROOQ HAMID NAEK

SENATE SECRETARIAT

REPORT OF THE STANDING COMMITTEE ON FINANCE, REVENUE, AND ECONOMIC AFFAIRS ON THE COMPANIES (AMENDMENT) BILL, 2019

I, Senator Farooq Hamid Naek, Chairman, Standing Committee on Finance, Revenue and Economic Affairs, have the honour to present, on behalf of the Committee, this report on a Private Member's Bill further to amend the Companies Act, 2017, [The Companies (Amendment) Bill, 2019] introduced by Senator Ghous Muhammad Khan Niazi on 6th May, 2019, and referred to the Committee for consideration and report.

2. The composition of the Standing Committee is given as under: -

| | | |
|------|--|-------------------|
| (1) | Senator Farooq Hamid Naek | Chairman |
| (2) | Senator Syed Shibili Faraz | Member |
| (3) | Senator Ayesha Raza Farooq | Member |
| (4) | Senator Mushahid Ullah Khan | Member |
| (5) | Senator Musadik Masood Malik | Member |
| (6) | Senator Dilawar Khan | Member |
| (7) | Senator Muhammad Akram | Member |
| (8) | Senator Muhammad Talha Mahmood | Member |
| (9) | Senator Imam-ud-Din Shouqeen | Member |
| (10) | Senator Mohsin Aziz | Member |
| (11) | Senator Mian Muhammad Ateeq Shaikh | Member |
| (12) | Senator Anwar ul Haq Kakar | Member |
| (13) | Senator Sherry Rehman | Member |
| (14) | Advisor the Prime Minister for Finance and Revenue | Ex-Officio Member |

3. The Committee considered the said matter in its meetings held on 30th May, and 10th October, 2019, at Parliament House, Islamabad. The last meeting of the Committee was attended by the following:-

| | | |
|-----|-----------------------------------|----------|
| (1) | Senator Farooq Hamid Naek | Chairman |
| (2) | Senator Syed Shibli Faraz | Member |
| (3) | Senator Anwar ul Haq Kakar | Member |
| (4) | Senator Dilawar Khan | Member |
| (5) | Senator Ghous Muhammad Khan Niazi | Mover |

4. The Committee considered the said Bill first time in its meeting held on 30th May, 2019, in which Senator Ghous Muhammad Khan Niazi, Member In-Charge apprised the Committee that most of the profitable companies were not paying dividend to their small shareholders and pressing them to sell their shares, therefore, the said Bill was introduced to protect the rights of small shareholders.

5. The representative of the SECP informed the Committee that under the Companies Act, 2017, it was the discretion of a company whether to pay dividend or to reinvest funds into the company's business, which was in line with the international best practices. Moreover, the law also requires that dividend could only be paid out of profits of the company. Furthermore, mandatory dividend rules limit the companies' abilities and opportunities to invest and to grow further. The Committee directed the SECP to convene a meeting with the Member In-Charge of the Bill for making an appropriate amendment in that regards.

6. The Committee finally considered the said Bill in its meeting held on 10th October, 2019, in which the Member-in-charge, informed that two meetings were held with the officials of SECP for redrafting of the said Bill. However, on

25th September, 2019, in a meeting with SECP officials it was mutually agreed that the following amendment may be carried out in the said Bill:-

"That for Clause 2 of the Bill, following shall be substituted, namely:-

2. Amendment of Section 227, Act XIX of 2017.- In the Companies Act, 2017 (XIX of 2017), in section 227, in sub-section (3), after paragraph (d), the following new paragraph shall be inserted:-

(e) the legitimate reasons for not declaring dividend under section 240 despite earning profits and future prospects of dividend, if any."

6. After due deliberation and in light of satisfaction expressed by the Member-in-Charge, the Committee unanimously recommended that the Bill, as reported by the Committee may be passed by the House and gave approval for presentation of this report to the House.

7. The Bill as reported by the Committee is at Annex-A and the Bill as introduced is at Annex-B.


(**MUHAMMAD TAHIR KHAN**)
Secretary (Committee)


(**SENATOR FAROOQ HAMID NAEK**)
Chairman (Committee)

Islamabad, the
10th October, 2019

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BILL

further to amend the Companies Act, 2017

WHEREAS it is expedient further to amend the Companies Act, 2017 (XIX of 2017), for the purposes hereinafter appearing;

It is hereby enacted as follows:-

1. **Short title and commencement.**- (1) This Act may be called the Companies (Amendment) Act, 2019.

(2) It shall come into force at once.

2. **Amendment of section 240, Act XIX of 2017.**- In the Companies Act, 2017 (XIX of 2017), in section 240, in sub-section (1), for the word "may", the word "shall" shall be substituted.

STATEMENT OF OBJECTS AND REASONS

At present, under the Companies Act, 2017, declaration of dividend by the Company is not binding. The Board of the Directors of the Company decides whether to pay dividend or reinvest the profit earned by a Company. As per annual report of the Karachi's Stock Exchange (KSE), 2010-2018, out of 562 listed companies only 246 paid dividends to their shareholders while as many as 114 did not despite earning profit. This amendment aims to amend section 240 of the Companies Act, 2017, to provide for mandatory declaration of dividends for the protection of interests of the shareholders, specially the minority shareholders and to ensure that in the event of profit, they are paid a dividend after its declaration by the Board of Directors of the Company.

The proposed amendment is designed to achieve the aforesaid objective.

**SENATOR GHOUS MUHAMMAD KHAN NIAZI,
Member-in-Charge**

[AS REPORTED BY THE COMMITTEE]**A****BILL**

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**SENATOR GHOUS MUHAMMAD KHAN NIAZI,
Member-In-Charge**