

<b>THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN</b>	
<b>CERTIFIED FINANCE AND ACCOUNTING PROFESSIONAL (CFAP) EXAMINATION</b>	
<b>EXAMINERS' COMMENTS</b>	
<b>SUBJECT</b> Corporate Laws	<b>SESSION</b> Summer 2019

### Passing %

Question-wise										Overall
1	2	3	4	5	6	7	8	9	10	
10%	39%	43%	6%	44%	38%	38%	6%	39%	42%	23%

### General comments

The overall performance was slightly better as 23% examinees secured passing marks as compared to 16% in the previous attempt. Relatively weak performances in Question 1, Question 4 and Question 8 can be attributed to similar types of issues which examiners have been highlighting during the past few years i.e. selective studies, failure to address the exact requirement of the question as well as inability of the examinees to implement theoretical knowledge to scenario-based questions. Examinees can overcome these weaknesses by concentrating on syllabus coverage with particular emphasis on comprehending the concepts underlying in the provisions of law.

Examinees should understand that reproducing all the provisions/contents of the examined rule or regulation will not result in scoring of extra marks. Further, it has been noted that a lot of times examinees wasted time in repeating already written provisions which affected their performance on the other questions due to ineffective time management. Examinees are therefore strongly advised to focus on giving concise to-the-point answers and switch to the next question after they have spent reasonable time on a question. This would help them to attempt all questions of the paper. In this paper, 11.55% examinees were short of 9 or less marks and could have passed had they focused more on the identified weak areas.

### Question-wise common mistakes observed

#### Question 1(a)

- Most of the examinees failed to conclude that acquisition of substantial stake in ML fell within the powers of the board under Companies Act, 2017 and did not require any further approval.
- Regulatory requirement of ensuring that a viable alternate business plan authenticated by the board should be in place before disposing off the subsidiary/undertaking was not mentioned.

**Question 1(b)**

- Examinees were unaware of the general obligations of an acquirer in respect of public announcement of offer under the Listed Companies (Substantial Acquisition of Voting Shares & Takeovers) Regulations, 2017.
- Many examinees repeated the same obligations over and over again using different words and terminologies.

**Question 2(a)**

Many examinees failed to mention that since WLL's project had not commenced operations, the information regarding funds invested or to be invested by promoters, sponsors, associated company, associated undertaking distinguishing between cash and non-cash amounts was also required to be disclosed.

**Question 2(b)**

Examinees directly offered conclusion in this part of the question without providing adequate reasoning to support or justify their answer. Examinees failed to reason out that the possibility of decreased profits/incurring of losses may result in a fall in the return of the loan beyond the prescribed limits rendering it impossible for the company to accept WLL's offer.

**Question 3(a)**

This part of question was performed well.

**Question 3(b)**

Some of the examinees did not mention that CL was required to seek further approval from the Commission before issuance of shares.

**Question 3(c)**

- Most of the examinees were not able to calculate/determine that maximum share capital of Rs. 66.66 million could only be raised in the given scenario.
- In some cases, the relevant regulation i.e. shares with differential rights of listed company should not exceed 25% of total post-issue paid-up share capital, was correctly reproduced, however, practical application of the same was lacking.
- Some of the examinees did not consider that the limit of 25% was to be applied on post-issue paid-up capital and instead they mentioned that the same is applicable on existing paid-up capital of the company which was not correct.

**Question 4(a)(i)**

Most of the examinees mentioned that the performance appraisal of head of internal audit was solely the responsibility of the audit committee which was incorrect. They failed to recognize that such performance appraisal was required to be done jointly by the chairman of the audit committee and chief executive officer of the company.

**Question 4(a)(ii)**

- Examinees failed to decipher that due to close scheduling of the meetings, the circulation of audit committee minutes before the board meeting was not possible and that in the given case it would have sufficed if the chairman of the audit committee communicated a synopsis of the proceedings to the board.
- Many examinees mentioned that the minutes of the audit committee were required to be circulated within 14 days of the audit committee meeting, whereas as per regulatory requirement, such minutes should be circulated prior to the next board meeting or immediately after the board meeting where prior circulation is not possible.

**Question 4(b)**

Only a few examinees were able to identify the information required to be included in the orientation course to be given to directors under the Public Sector Companies (Corporate Governance) Rules, 2013.

**Question 5(a)**

This part of question was performed well by the examinees.

**Question 5(b)**

Examinees did not mention that the nominee is responsible to facilitate the transfer of shares to the legal heirs of the deceased subject to Islamic law of inheritance.

**Question 6(a)**

Generally, the examinees did not have a clear concept of Microenterprise and Micro entrepreneur as defined under NBFC and Notified Entities Regulations, 2008. In most of the cases, the given definitions were either very vague or casual due to which examinees were not able to score marks.

**Question 6(b)**

This part of question was performed well by the examinees.

**Question 7(a)**

- In most of the cases, examinees mentioned irrelevant grounds that were not related to the given scenario.
- Few examinees were able to pinpoint the applicable grounds correctly, however, they failed to link them further to determine the applicability of the identified grounds in DTL's scenario.
- Some of the examinees directly offered conclusions without providing the adequate reasoning to support or justify their answers.
- Few examinees were not able to calculate current and/or debt equity ratio(s).

**Question 7(b)**

- Examinees did not mention that Commission may appoint a person as an Administrator whose name does not appear on the panel after giving a notice to the SBP.
- Examinees were also ignorant of the circumstances in which Administrator would cease to hold office.

**Question 8(a)**

- Examinees were altogether unaware of the price sensitive information which is required to be communicated to the Pakistan Stock Exchange Limited under the Pakistan Stock Exchange Regulations.
- Many examinees repeated the same points over and over again using different words and terminologies.

**Question 8(b)**

This part was not attempted by most of the examinees. In cases where it was attempted, only a few examinees were able to correctly identify the persons prohibited to become director of a banking company under the Banking Companies Ordinance, 1962.

**Question 9(a)**

Most of the examinees could not decipher that since Ahmed was also the director of the holding company, prior approval from shareholders of holding company was also required to be taken before entering into the arrangement.

**Question 9(b)(i)**

This part of question was performed well by the examinees.

**Question 9(b)(ii)**

- Examinees were not able to determine that the resolution was required to be circulated to all members of the company along with necessary papers and was also required to be signed by all the members.
- Some of the examinees missed that the resolution passed through circulation was required to be noted at subsequent meeting of the members and was to be made part of the minutes of such meeting.

**Question 10(a)**

Examinees mentioned the required conditions correctly, however, they ignored to link the financial and operational conditions to the given scenario. Accordingly, they did not continue to determine BL's eligibility to make public offer of shares which was a specific requirement of the question.

**Question 10(b)**

Most of the examinees were unaware of the holding period as well as the holding requirements which resulted in poor performance in this part of the question.

**Question 10(c)**

This part of question was performed well by the examinees.

*(THE END)*