

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
CERTIFIED FINANCE AND ACCOUNTING PROFESSIONAL (CFAP) EXAMINATION
EXAMINERS' COMMENTS

SUBJECT Corporate Laws	SESSION Winter 2020
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Passing %

Question-wise								Overall
1	2	3	4	5	6	7	8	
2%	41%	47%	37%	29%	16%	44%	9%	14%

General comments

This is the first paper of Corporate Laws held under open book environment. Overall performance was not satisfactory. One of the main reasons of this poor performance was those questions where no reference of law(s) was given in the requirement section; examinees were unable to comprehend that under that situation they have to make cross-linking the various laws. Another reason was that they answered the areas which were specifically required to be ignored; resultantly they were unable to complete the paper. It is therefore advised to all examinees to read the questions carefully and restrict their answers to the requirements of the questions only.

Question-wise common mistakes observed

Question 1(a)

- Although many examinees correctly identify that AL and SL are associated companies, they did not consider that whether Nadeem is an independent director or a director by virtue of nomination, as it will not create the relationship between these companies.
- Very few candidates were able to identify that decision may be different if Nadeem's son is a major or minor.

Question 1(b)

- For decision no. (i), following requirements were not covered:
 - Requirements given under Securities Act, 2015 and under Listed Companies (Substantial Acquisition of Voting Shares & Takeovers) Regulations, 2017.
 - Requirements of holding investment in SL in AL's own name and entering in register maintained for that purpose.
- For decision no. (ii), following requirements were not covered:
 - Requirements that dissenting note should be recorded in the minutes as required under the Listed Companies (Code of Corporate Governance) Regulations, 2019.
 - Requirement of maintaining register and that it shall be produced at the commencement of every annual general meeting and should be accessible.

Question 2

Examinees were not able to identify whether RL is fund management or lending NBFC; hence, they could not cover the requirements that are different for both types.

Question 3

- Examinees also distributed the amount realized from the factory building and plant and machinery among the creditors instead of distributing solely to the banks having floating charge over these assets.
- Examinees did not distribute the balance/remaining amount amongst the unsecured creditors on proportionate basis.

Question 4(a)

Although examinees correctly identify that TPL would cross the threshold limit of 30% by entering into the agreement and they have to buy at least 50% shares, they did not apply it on the correct number of shares.

Question 4(b)

Examinees failed to understand that Yasir shall have to make a competitive bid and resultantly they were not able to write the conditions which Yasir has to consider while making a competitive bid.

Question 4(c)

Examinees failed to appreciate that unless public offer was made conditional upon minimum level of acceptance, TPL cannot reject the acceptance. Moreover, they failed to compare the acceptances received with the minimum level in the given scenario and that TPL cannot reject the acceptances for 90 million shares.

Question 4(d)

Many examinees stated that TPL cannot dispose the sizable part of VGL but they failed to mention the conditions associated with it.

Question 5(a)

Many examinees failed to identify that both suspension and resumption of operations will be considered as material information and therefore should be disclosed.

Question 5(b)

Examinees have not mentioned the effects if Sikander Niaz repurchases the shares within a period of six months.

Question 6(a)

- Examinees did not know that there are two options for the treatment of buy-back of shares i.e. cancel the shares or hold it as treasury shares.
- Examinees were not able to calculate the correct number of shares that BCL can buy with its available fund under either option.
- Examinees did not consider the treatment of free float shares while calculating number of shares to be bought in either option.
- Examinees were not aware of the fact that cash may be generated for buy-back either by disposing BCL's assets, through obtaining loan, etc.

Question 6(b)

Examinees failed to draft the resolutions properly and ignored to cover that members of BCL gave approval under the requirement of relevant laws and the maximum number of shares to be bought back.

Question 6(c)

Good performance was noted in this part.

Question 7(a)

Good performance was noted in this part.

Question 7(b)(i)

Examinees failed to advise that strike price will be determined based on 100% of the offer size i.e. 200 million.

Question 7(b)(ii)

Examinees did not comment that bidder K being insurance company will not be taken in the aggregate of associates.

Question 7(b)(iii)

Examinees failed to advise that successful bidder would be allotted and issued only 70% of the offer size.

Question 7(b)(iv)

- Examinees failed to discuss that bidders A and B shall not qualify for allotment of shares as they have made bids below the strike price.
- Examinees failed to discuss the treatment of bid money related to unsubscribed portion.

Question 7(c)

Examinees failed to examine how FCL could have avoided the undersubscribed situation.

Question 8(a)

Examinees failed to discuss that on disposal of 20% shareholdings in SHL by PIL, SHL's status would not be as public sector company; hence, the Code of Corporate Governance for Listed Companies would be applicable on it instead of Code for Public sector companies. Consequently, examinees were not able to understand the impact on the removal of directors before and after the disposal of shares.

Question 8(b)

Examinees did not discuss that after disposal, SHL shall have to follow the requirements of Code of Corporate Governance for Listed Companies and therefore it would not be able to suggest changes in the composition of the board.

Question 8(c)

- Examinees did not mention that if a person is not appointed as a director in place of Imtiaz Ali till last working day then a casual vacancy will arise that shall have to be filled within 90 days and that appointed director shall hold office for the remainder of the term.
- Examinees failed to appreciate that Code for Public Sector Companies permits that a person may hold both the positions of Company Secretary as well as Chief Financial Officer; however, under the Listed Companies (Code of Corporate Governance) Regulations, 2019 separate persons shall be required to hold these positions.

Question 8(d)

Good performance was noted in this part.

(THE END)