



MEMORANDUM ON RECENT CHANGES IN COMPANIES REGULATIONS 2024 FOR SECTION 42 COMPANIES

PREAMBLE

The Securities and Exchange Commission of Pakistan (SECP) has notified amendments in Chapter VII of the Companies Regulations, 2024. The chapter provides regulations for Association with Charitable and Not for Profit Objects licensed under Section 42 of the Companies Act, 2017.

The SECP, on 28 October 2024, issued a Consultation Paper on the transformation of the Regulatory Framework for Section 42 Companies, and for public comments a draft SRO on January 10, 2025. The objective has been to streamline governance, enhance compliance and standardize operational transparency for Section 42 companies. After incorporating the stakeholders' views the amendments have been notified vide SRO 601(I)/2025 dated April 11, 2025.

KEY FEATURES OF SRO 601(1)/2025

i) Eligibility of Promoters/Directors

- The association must have a minimum of three promoters and all first and subsequent directors must be from its promoters/members.
- All promoters and directors must be active taxpayers.
- At least three of the promoters must possess graduate-level qualifications.
- In the case of a multiple object association, either the Chief Executive must have relevant experience in all the proposed objects or each object is backed by an experienced promoter.

- Fit & Proper Criteria emphasizes the possession of relevant experience of the CEO in the proposed objectives and management experience of at least three promoters or directors including CEO.
- The monetary limit of Rs. 200,000/- for overdue payments has been removed from the applicable financial soundness and solvency criteria. A promoter/director must not have any overdue payment to financial institutions.

ii) Conversion of Existing Trusts or Societies to Section 42 Companies

An existing entity under a trust or society structure shall be allowed to convert itself into a Section 42 company, provided the relevant legal framework does not have a bar on the dissolution or takeover of the exiting entity. The conversion shall be subject to the following conditions and compliances:

- The existing entity must be dissolved within 90 days of the incorporation of Section 42 Company.
- Evidence of the dissolution and an auditor's certificate confirming completion of the takeover process must be submitted to the SECP within 30 days of dissolution.
- If the required documents are not submitted within the stipulated time, the SECP may initiate revocation process of the license. The revocation would lead to the company's name struck off from the SECP's Register of Companies.
- Where the dissolution process is not available in the relevant framework, the applicant must obtain and submit a letter of revocation from the registering authority to retain the same name i.e. that of the existing entity.

iii) Adoption of Standard Object Clause

The applicant for license may adopt any one or more of the standardized object clauses provided in Annexure-U recently added in the Regulations. Changes in standard objects are allowed, as deemed necessary by the applicant. The Annexure classifies activities of Section 42 companies in the following types:

1. General - Charitable/Philanthropic activities
2. Health related services/activities
3. Education
4. Special Education activities
5. Vocational training/Institute
6. Research related activities
7. Islamic Religious activities
8. Masajid & Madaris
9. Women Empowerment
10. Social Infrastructure and Human Resource Development
11. Arts, Sciences and Literature activities
12. Culture and heritage activities
13. Environment Protection & Climate Change
14. Sports related activities

iv) Classification of Companies & their respective Obligations

Section 42 companies have been classified for their size based on their annual revenue:

- ➔ **Small-sized:** Annual Revenue up to PKR 50 million
- ➔ **Medium-sized:** Annual Revenue above PKR 50 million but not exceeding PKR 200 million
- ➔ **Large-sized:** Annual Revenue above PKR 200 million

All licensed Section 42 companies will have to submit their annual audited accounts within six months of the notification of this amendment. Non-Compliance will lead to the company being automatically categorized as a large-sized entity.

Gender Diversity / Female Director

Medium and large-sized companies must have at least one female director on the Board from its next election cycle, whereas Small-sized companies have been encouraged to have one on such director on its board.

Full Time Chief Executive

A large-sized Section 42 company must appoint a full-time employee as its Chief Executive Officer.

Auditor's Qualification

Large-sized companies must appoint auditors registered with the Audit Oversight Board (AOB). Auditor for the Medium-sized company must be QCR-rated auditor.

PCP or Charity Registration Evidence

Large-sized Section 42 companies have to submit the proof of registration with the Pakistan Centre for Philanthropy (PCP) or the relevant Charity Commission to SECP:

- ➔ **New Companies** - Within six months of registration with SECP
- ➔ **Existing Companies** - Within six months of promulgation of this regulation

This reporting requirement does not apply to companies that already hold valid licenses issued by SECP for other licensed activities.

v) Prior SECP Approval

Section 42 companies are now required to obtain prior approval for amending their object clauses and for change in the Chief Executive Officer.

These requirements were previously removed from the regulations applicable to Section 42 Companies. Now these have been reinstated.

vi) Security Clearance

Previously the SECP, under the regulations, was required to obtain security clearance in accordance with the policy of the Government in for foreign funding/ donation and induction of foreign members, directors or chief executive officer.

The relevant regulation has been revised to require security clearance from the Ministry of Interior before approval is granted for foreign directors or members.

vii) Prohibition on Foreign Funding from Blacklisted or Unregistered IGNOs

Companies have been prohibited from receiving any donation/funding from blacklisted international NGOs (INGOs) or unregistered INGOs operating within Pakistan.

viii) Maintenance of Website

Section 42 companies are required to publish key corporate information on their websites in both English and Urdu, in accordance with Annexure-V, recently inserted in the Regulations. This includes company profile, governance details, investor relations, media announcements, and information about the company's complaint handling mechanisms.

ix) Monthly Reporting

The regulation mandating monthly reporting of funds received from local and foreign sources equivalent to or more than Rs. 5million, has been omitted.

THIS MEMORANDUM IS BEING CIRCULATED FOR INFORMATION OF OUR CLIENT.

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