



MEMORANDUM ON CONVERSION OF SHARES OF UNLISTED COMPANIES INTO ELECTRONIC FORM

PREAMBLE

Section 72 of the Companies Act, 2017 (the Act) made it mandatory for all companies to issue shares in book-entry form from the date notified by the Securities and Exchange Commission of Pakistan (the Commission) within a time period not exceeding 4 years from the commencement of 2017. The period was extendable for a further two years at the option of the Commission. This section also empowers the Commission to notify different dates for different classes of companies or exempt any classes of companies.

Moreover, Regulation 44 of the Companies Regulations 2024, requires that post notification under Section 72 of the Act, all companies shall be required to replace physical shares with book-entry form and apply to a Central Depository for declaration of company's shares as eligible securities and comply with the requirements of the Central Depository for issuance of shares in book entry form.

In this background the Commission adopted a phase wise approach for the digitalization of shares of unlisted companies. In the first phase vide its notification SRO 246(I) of 2025 issued on February 27, 2025, SECP had made it mandatory for unlisted companies incorporated on or after March 03, 2025 to hold, issue and transfer shares exclusively in electronic form from the date of their incorporation, and this phase has been successfully implemented.

Now, **SRO 328(I)/2026 dated February 19, 2026** has been issued by the Commission to commence the second phase of digitalization to be effective after 30 days from the date of notification i.e., March 21, 2026.

In this second phase, the Commission has directed only those existing unlisted companies to replace their shares into book entry form who want to make changes to their capital or shareholding structure. In this way every unlisted company will follow its own timeline to complete digitalization of its shares. Accordingly, those unlisted companies who would not be making / reporting changes in their capital and shareholding digitalization is currently not applicable.

Nevertheless, we understand this is a transition phase before full digitalization of shares becomes mandatory for all types of companies in future.

In this document we have discussed key requirements of the notification applicable for the replacement of shares in book-entry form, benefits, challenges and considerations and applicable penalties on any non-compliances.

KEY REQUIREMENTS OF THE NOTIFICATION

a) Applicability of Mandatory Replacement Shares in Electronic Form

➔ The notification is applicable to all unlisted companies (i.e., public unlisted companies, private limited companies and single-member companies), who want to undertake/report to SECP any of the following transactions:

- Issue new share capital as right, other than right or bonus shares
- transfer or transmit existing share(s)
- Buying back its shares

- Such companies will have to replace their physical shares in electronic form before taking up any of the above-mentioned corporate actions.
- To replace shares in electronic form, companies will have to follow the procedures of the Central Depository Company for declaration of shares as CDS Eligible Security and the replacement of the existing physical shares into book-entry form.
- Such companies will have to ensure that all issued shares of the company are duly inducted into the Central Depository System, as it is a mandatory condition for induction of unlisted companies in the Central Depository.
- In case of any impediment, like shareholding dispute, pending litigation, or any other reasonable cause, the company, or the concerned person(s), as the case may be, shall report such circumstances to the Commission. Upon receipt of such impediment, the Commissioner (LRD) may relax the requirements to the extent deemed appropriate in the circumstances.

b) Obligations of the existing shareholders, transferees, subscribers to the further capital, and other concerns

- Existing shareholders, transferors, transferees, subscribers to further capital and other parties concerned must ensure all their shares are maintained in book-entry form prior to participating in any transactions related to shares of any unlisted companies.
- For this purpose, they will need to open an individual investor account with CDC and follow the procedures of Central Depository for maintaining shares in book entry form. The requirement of opening CDC account will not apply for those who already maintain an investor account with CDC.

c) Cancellation of Physical Shares and their preservation

- As a result of replacement, physical share certificates shall be cancelled and retained by the company for period of 10 years unless otherwise

directed by SECP, a Court, or any Competent Authority to preserve such shares for a longer period.

- For the purposes of replacement and cancellation, shareholders will have to surrender physical share certificates.

d) Impact of Book Entry Shares on Future Compliances

- Whenever there are any changes in capital and shareholding structure of such unlisted companies whose shares are in book entry form, their future compliances to SECP regarding allotment, transfers and/or shareholding shall be accompanied by supporting document(s) issued by Central Depository along with the relevant applicable return(s)/forms as per following details:

Relevant Form/Return	Supporting Documents
Form-3 (Return of allotment of shares & Change in shareholding or membership or voting rights)	<ul style="list-style-type: none"> • In case of allotment of shares: Statement of allotment of shares / CDS list of allottees. • In case of transfer of shares: Statement of transfer of shares /CDS Account Activity report.
Form-A (Annual return of a company)	<ul style="list-style-type: none"> • Complete list of shareholding /CDS list of beneficial owners' report. • Complete CDS list of transfer of shares, if applicable.
Form-27 (Final return for buyback of shares of unlisted companies)	<ul style="list-style-type: none"> • Statement of buyback of shares / CDS Account balance statement where buy-back shares are parked.

- Subject to compliance with applicable CDC procedures, the Central Depository has been mandated to ensure availability of all latest statements to the companies to enable them to comply with this notification under Regulation 44 of the Regulations.

e) On-going compliance with applicable procedures and regulations

- ➔ It is mandatory for all the companies to which this notification applies to ensure compliance with all applicable regulations, directions, guidelines, or circulars issued by the Commission or the Central Depository.

BENEFIT OF BOOK-ENTRY SHARES

The digitalization of shares will provide secured ownership structures and strengthen corporate governance among unlisted companies as all subsequent transactions related to capital and shares will be performed in real-time.

Further, it will enhance transparency, traceability, and regulatory oversight while reducing risks of forgery, duplication, loss, damage, or fraudulent transfers associated with physical share certificates.

This will bring efficiency in share transfers and reduce the cost of share transfer as well.

KEY CHALLENGES / CONSIDERATIONS**a) Mandatory Condition for induction of all shares of Company in Electronic Form**

It is a mandatory condition that an unlisted company must ensure induction of 100% shares in book-entry form. It will only be possible if all existing shareholders are able to open their investor account.

Compliance with this condition could be challenging where shareholders are in large numbers, or where some are either inactive or not alive with pending succession matters and where shareholders who are not resident in Pakistan.

In case of any of the above situations affecting the company, an impediment report must be filed with the Commission to avoid imposition of penalties and seeking any relaxation.

b) Availability of Members Register, Share Transfer Register and Physical Share Certificates

It is a prerequisite to have physical share certificates available with the shareholders/company so that the same can be cancelled against replacement with book-entry shares and retained by the company for mandatory period of 10 years.

Unlisted Companies must streamline their Members' Register, Share Transfer Register and Physical Share Certificates against existing share capital prior to initiating the process.

c) Cost of replacement of shares in book entry form

A provincial levy stamp duty is applicable on deposit of physical shares in Central Depository for conversion in electronic form. The rates are defined in the respective provinces' Stamp Duty Schedules.

CDC charges are also applicable as per fee schedules, which include one-time fee at the time of induction, transactions fee at the time of changes in capital and some annual fee as well. In the case of the newly incorporated company initial CDC fee was substantially reduced by the SECP.

The recent SECP notification is silent on these matters as to whether any relaxation will be provided regarding applicability of stamp duty and CDC fee. It seems that companies will have to bear these costs.

d) Compliance with Regulations and Procedures of Central Depository

Central Depository Company of Pakistan Limited (CDC) has a specialized set of Regulations and Procedures issued under the Central Depositories Act, 1997. These regulations and procedures are applicable to companies who induct their shares and other securities in Central Depository System (CDS).

The unlisted companies will have to comply with these regulations and procedures as amended from time to time in addition to any notifications issued by the SECP.

PENALTIES

Non-compliance may attract penalty of Level 3 under sub-section (2) of section 510 of the Companies Act, 2017.

The amount of Level 3 is maximum Upto 100 million and per day Upto Rs.500,000/-. It is the highest slab of penalty which may be imposed on the company or any other person.

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