

## INTRODUCTION

SECP notified Corporate Restructuring Companies Rules, 2019 [**“Rules”**] vide S.R.O. 1306 (I)/2019 dated **01 November 2019** in terms of section 15 of Corporate Restructuring Companies Act, 2016 [**“Act”**].

No Corporate Restructuring Company [**“CRC”**] can carry on the business of corporate restructuring unless it is established as a **public limited company** and holds a valid **license** issued by SECP in this behalf.

Under these Rules, CRCs will be able to deal with the **acquisition**, management, **restructuring** and resolution of **non-performing assets** of financial institutions besides restructuring, **revival and liquidation** of **financially distressed** companies and their businesses.

Corporate restructuring involves significantly modifying the **financial or corporate structure** in order to eliminate the financial troubles and improve the performance of a company.

## LICENSE - CRITERIA

- Promoters and directors to have **knowledge** and **experience** in dealing with restructuring of companies in **distress**, and are conversant with **financial engineering techniques**;
- **Undertaking** from the promoters;
- **Minimum amount of Paid up capital** to be Rs. 500 million;
- Proposed director, officer or employee of such company **not to be convicted of any offence** and adjudged as **insolvent**; and
- No amount is **outstanding** to a financial institution as per **consumer credit information report**.

## LICENSE - HOW TO OBTAIN

- Applicant to make an application to SECP on **Form-I** along with a fee of **Rs.50,000** and documents as provided in **Annexure A** of the Rules.
- After approval from SECP, applicant will be required to **establish** CRC as a **public limited company**.
- After incorporation of CRC, SECP may grant a **license** which will remain valid unless **voluntarily surrendered** by the CRC or **cancelled** by SECP.
- If a **license is refused by SECP**, CRC is required to get its name **struck off** from the register or to **wound up voluntarily** within **3** months from the date of refusal.
- Any person **already providing** services of CRC is required to get license from SECP within a period of **6 months** from 01 November 2019.

## LICENSE - CANCELLATION

SECP may **cancel** the license of a CRC, if-

- It is in **violation** of any provision of these rules or condition of license;
- Any of its directors or chief executive is **convicted for an offence** of fraud or any criminal offence of moral turpitude;
- It is declared **undischarged insolvent**;
- It is **wound up** by an order passed by a court of competent jurisdiction; or
- It **voluntarily** makes application to SECP.

## PENALTY

As provided under S.13 of the Act.

Limit of penalty	If contravention continues
Rs.50 Million	Rs.200,000 per day

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

## CONDITIONS FOR LICENSE

- CRC is required to **conduct due diligence** at the time of acquiring / buying non-performing assets from financial institution.
- **No new director** to be appointed by CRC without prior approval of SECP.
- **No change** can be made in the Memorandum and Articles of Association of the company without prior approval of SECP.
- CRC is required to include the following in all its communications:

***"A corporate restructuring company set up under Corporate Restructuring Act 2016".***

## SPECIAL AUDIT AND INSPECTION

Under Section 10 & 11 of the Act, SECP at its discretion may order:

- **special audit** and appoint an auditor; or
- on the complaint of any person may start an **inquiry or inspection**.

## RESTRICTIONS

Under section 5(2) of the Act, CRC **not to perform** the following functions:

- Involve in **speculative transactions**;
- Aid an obligor with the object to **avoid its debt obligations** or performance of a contract;
- **Circumvent fair valuation** of non-performing assets; and
- Transact business **other than at arm's length**.

## UNDERTAKING

Important points in the undertaking to be submitted by promoters, inter alia, includes:

- I have **special knowledge** and **experience** of matters regarding restructuring of companies in distress.
- I have not been associated with any **money laundering** or **terrorist financing** activities including any **illegal banking business** or financial dealings.
- I, nor any associated entity, have **defaulted** in paying **taxes** including any **payment of any financial institution**.
- I have never remained nor am, on the **exit control list** of the Ministry of Interior and never been convicted of **fraud or breach of trust**.

*These matters are only included in the undertaking and not in the main text of the Rules.*

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