

<b>THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN</b>	
<b>EXAMINERS' COMMENTS</b>	
<b>SUBJECT</b> Advanced Corporate Laws and Practices	<b>SESSION</b> Certified Finance and Accounting Professional (CFAP) Examination - Winter 2024

### Passing %

Question-wise								Overall
1	2	3	4	5	6	7	8	
46%	27%	25%	54%	29%	39%	57%	21%	36%

### General comments

Overall performance in this attempt was slightly lower, with 36% of examinees securing passing marks compared to 38% in the previous attempt. It was noted that performance in question 8 was weak, mainly because of selected studies and a lack of application of relevant corporate law knowledge to the given scenario. Many examinees reproduced all the provisions of the law without demonstrating their understanding through application to the specific facts, which ultimately resulted in the loss of precious time.

### Question-wise common mistakes observed

#### Question 1(a)

- Examinees could not determine that Moin Hassan does not meet the mandatory five-year minimum experience requirement for independent directors. This oversight led to an incorrect conclusion regarding his eligibility for inclusion in the independent directors' databank and to contest the election as an independent director.
- Some examinees only assessed the eligibility of members, neglecting to identify the necessary actions that ZFL should take as required by this part of the question.

#### Question 1(b)

- Examinees failed to identify that in the absence of any opposing candidates for the independent directors' category, no election would be required. Babar Zia and Shahid Salman would, therefore, be deemed elected unopposed as independent directors.
- Examinees did not calculate the number of votes available to each shareholder in respect of elections under the female directors' category.

#### Question 1(c)

Examinees did not mention that ZFL's statement of compliance should include an explanation for Hamza Suleman simultaneously holding the positions of both CFO and Company Secretary.

### **Question 2(a)**

- In respect of Option 1, examinees incorrectly identified a related party relationship between THL's director and IBL's Chief Operating Officer. This misidentification led them to incorrectly apply the provisions related to related party transactions, which were not relevant to the scenario.
- In respect of Option 2, examinees did not discuss that obtaining a loan from RB could qualify as Private Sector Borrowing from Abroad (PSBA) under specific circumstances.

### **Question 2(b)**

Examinees did not identify the following steps that CBL would need to undertake:

- Ensure strict adherence to the terms and conditions specified within the relevant category of PSBA.
- Conduct an independent assessment of the foreign currency loan proposal to mitigate potential risks related to money laundering/terrorism financing and foreign exchange fluctuations.

### **Question 3**

Examinees failed to identify the following reasons why the shares of ASL and CSL held by Mustafa Ali cannot be sold through a public offer using the book-building mechanism:

- Mustafa Ali's shareholding in ASL is below the 10% threshold, making it ineligible for a public offer.
- The proposed offer size for CSL shares falls below the prescribed minimum threshold of Rs. 250 million and 25 million shares.

### **Question 4**

- While examinees correctly identified the likely outcome of each bid, they did not provide the specific reasons for the rejection of those bids, as specifically required in the question.
- Examinees correctly mentioned that C's first bid would be accepted. However, they failed to recognize that C's second bid would be rejected due to the prohibition of downward revisions in bid submissions.

### **Question 5**

Examinees did not discuss that since both matters potentially relate to insider trading, ML must comply with the following provisions to prevent similar occurrences:

- Maintain a list of individuals (employees, contractors, etc.) with access to inside information;
- Designate a senior management officer responsible for timely updates to the list of insiders and maintaining prescribed records;
- Ensure all individuals on the list of insiders acknowledge compliance with the relevant provisions of the Securities Act, 2015.

### **Question 6(a)**

Examinees did not highlight the following critical aspects of Plan I:

- ASL must ensure that the right shares are offered to all existing shareholders strictly in proportion to their existing shareholdings and that all such shares are issued against full cash consideration.
- The issue price of the right shares must be the same for all shareholders.
- If BCL fails to provide an undertaking to subscribe to its allotted portion of the right shares, then such portion of the right issue shall be underwritten by an underwriter or a consortium of underwriters licensed by the Commission.

### **Question 6(b)**

Examinees failed to address the following critical aspects of the share issuance for non-cash assets:

- The value of non-cash assets must be determined by a qualified valuer duly registered with the Commission, and the valuation report must not be older than six months from the date of applying to the Commission for approval.
- ASL must invite claims on the non-cash assets through advertisements published in widely circulated newspapers in both English and Urdu languages.

### **Question 7(a)**

Examinees failed to address several critical aspects related to HFL's regulatory compliance:

- Did not discuss that HFL's total contingent liabilities must not exceed the prescribed threshold of Rs. 1,200 million, which is equivalent to 0.5 times of HFL's equity.
- As a regulated person, HFL is obligated to implement simplified due diligence measures, including verifying customer identity, understanding the purpose and nature of business relationships, and documenting the rationale for such decisions.

### **Question 7(b)**

Examinees incorrectly included the financial guarantee issued by CFL and the lien on the bank account with BBL when calculating HFL's maximum permissible exposure to the customer.

### **Question 8**

- Examinees failed to:
  - (a) mention that DFL's offer must be accepted within 120 days from the date of the offer and that the offer price must be the same for all Class B shareholders.
  - (b) adequately analyse the conditions under which DFL could compel GGL to sell its Class B shares and did not effectively differentiate between conditions that have already been met and those that still need to be fulfilled to initiate DFL's right to compel the sale.

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- Instead of applying relevant corporate law knowledge to the given scenario, examinees reproduced the entire provisions of the law without demonstrating an understanding of how these provisions apply to the given situation. This resulted in repetitive responses and a lack of practical application and critical analysis, hindering their ability to effectively address the requirements of the question.

***(THE END)***