GUIDELINES ON STOCK SPLIT FOR LISTED COMPANIES

Procedure for Executing a Stock Split Transaction

Pakistan Stock Exchange Limited
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Contents

Introduction, Purpose and Scope

Stock split is a strategic corporate decision that involves converting one share of higher value into a specific number of shares of lower value in a predetermined ratio. The action aims to make shares more affordable and accessible to a broader range of investors. The American Institute of Certified Public Accountants (AICPA) defines stock split as an increase in the number of shares of a given class without changing the equity amount. Similarly, the U.S. Securities and Exchange Commission defines a stock split as a declaration that has no effect on the value of what shareholders own, with the price of the stock decreasing proportionately to the increase in the number of shares.

The benefits of stock split include increased market accessibility, wider market reach, comparable value with industry peers, signaling positive information to investors, diffused ownership, enhanced liquidity and stability, and acting as a defense mechanism against hostile takeovers.

In global markets, many developed stock exchanges encourage companies to consider stock splits when their share prices are high, providing guidelines and processes for companies to follow when implementing a stock split.

This document outlines the guidelines for listed companies which will help them in contemplating a stock split transaction. It covers the essential steps that companies must consider when preparing and carrying out a stock split transaction.

Legal framework for Stock Split in Pakistan

- In Pakistan, stock split transaction can be legally carried out under Section 85 (1) (c) of the Companies Act, 2017[1]. The section reads: “A company having share capital may, if so authorized by its articles, alter the conditions of its memorandum through a special resolution, so as to sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum”.

- Additionally, the Central Depository Company of Pakistan Regulation also allow for share splits under Chapter 8D “Consolidation or Sub-division of Securities”[2]. Clearly, the legal framework for stock splits in Pakistan is well-established and straightforward.

[1] https://www.secp.gov.pk/document/companies-act-2017/?wpdmdl=28472

[2] https://www.cdcpakistan.com/assets/uploads/2023/12/CDCPL-REGULATIONS-MASTER-COPY-December-2023.pdf

Procedure for Executing Stock Split by Listed Companies

1. Preparation Stage

- Conduct a thorough analysis and internal evaluation to determine the need for a stock split based on factors such as share price, market conditions and sentiment.
- Consult with legal and financial advisors, if required.

2. Board Approval

- Approval of the board of directors for stock split transaction.
- Convene a board meeting to discuss and approve the stock split. The board will determine the ratio at which the shares will be split (e.g., 2-for-1 etc.) and set an execution date for the split. While determining the ratio it must be ensured that post stock split no fractional shares are created. The decision of the board will be disseminated through PSX website for information of all concerned.

3. Shareholder Approval through Special Resolution

- Shareholder approval through special resolution for stock split transaction and changes in memorandum and articles of association of company.
- Hold a general meeting of shareholders to obtain approval through special resolution for the stock split ratio and changes in the memorandum and articles of association of company. The resolution adopted in the general meeting will be disseminated through PSX website for information of all concerned.

4. Regulatory Filing with SECP

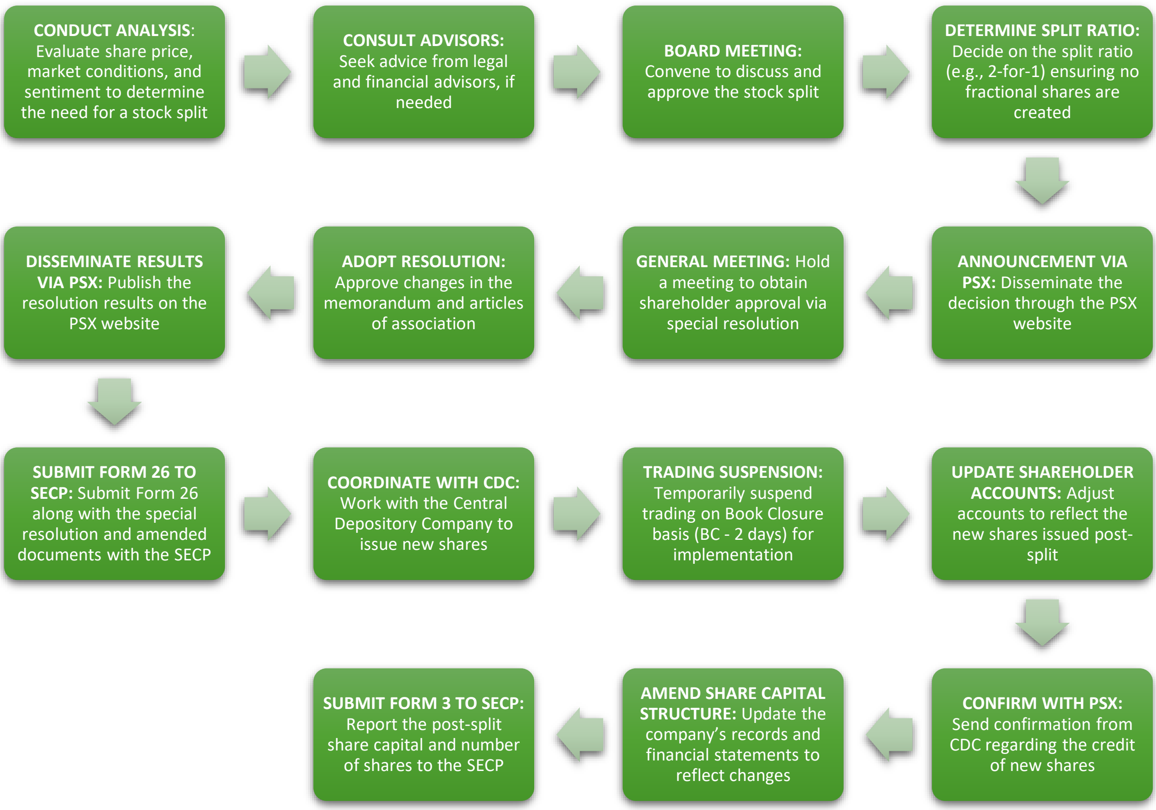
- Submit form 26 as provided in Companies Regulations, 2024 along with special resolution and amended copy of memorandum and articles of association of the company with the SECP.

5. Execution of Stock Split Transaction

- Coordinate with the Central Depository Company (CDC) to facilitate the issuance of new shares to shareholders based on the approved split ratio. The stock exchange may temporarily suspend trading in the company's shares on Book Closure (BC) basis i.e. (BC minus 2 days) to facilitate the implementation of the stock split.
- Provide clear guidance to investors and stakeholders on the expected timeline for resumption of trading after split.
- Update shareholders' accounts with the new shares resulting from the stock split.
- Provide confirmation to PSX from CDC relating to credit of increased number of shares subsequent to the split.
- Amend the company's share capital structure to reflect the revised number of shares resulting from the stock split. Update the company's records and financial statements accordingly

- Submit Form 3 with the SECP as provided in the Companies Regulations, 2024 to report post stock split share capital and number of shares.

Process flow



Real Life Examples of Stock Split

Our analysis of various local and international companies that have executed stock split reveals that said corporate action typically lead to increased trading volumes and, in some instances, a favorable impact on stock prices over time and heightened interest from the investors.

The trend also highlights the effectiveness of stock split as a strategic method for enhancing market liquidity, attracting a broader array of investors, and supporting long-term growth objectives. Overall, the findings emphasize the potential benefits of stock split in fostering a more dynamic trading environment and improving market perception.

(Detailed case studies related to stock splits are attached as Annexure-I)

Cost Associated with Stock Split

There are two costs associated to a stock split: CDC Induction fee and the Stamp Duty Fee.

CDC Induction Fee for New Shares

Applicable fee for induction of new shares in CDC, is 0.16% of the market value, with a maximum cap of Rs. 1 million.

Note: SECP is considering to further rationalize the CDC Induction fee.

Stamp Duty Fee

Applicable stamp duty fee on new shares are as follows:

	Province wise Stamp Duty Rates and Basis as per respective Provincial Stamp Acts				
Description of stamp duty	**Sindh**	**Punjab**	**Baluchistan**	**Khyber Pakhtunkhwa**	**Federal Capital Area (Islamabad and Rawalpindi)**
Issuance of new share certificates – Physical (new shares, right, bonus shares and against splitting / renewal / consolidation of old share certificates)	0.50 percent of the face value of shares mentioned in the certificate subject to a minimum of one rupee **Article 12**	One hundred rupees. **Article 19**	One percent of the value of share, scrip or stock **Article 19**	Thirty Rupees **Article 19**	Fifty Rupees **Article 19**

Tax Implications

- After a stock split, investors get extra shares, but their ownership stays the same. This doesn't count as a sale for tax purposes. The cost and purchase date of the new shares remain the same as the original shares, so there are no immediate tax effects from the split.

- When these shares are eventually sold, any capital gains will be calculated based on the difference between the sale price and the original cost. In summary, a stock split does not trigger tax consequences. A detailed illustration on the same is attached as Annexure-II.

Accounting treatment of Stock Split

- When a company's stock undergoes a split, the par value is adjusted accordingly, which is balanced by an increase in the number of shares. A stock split does not impact the total stockholders' equity, and therefore, no major accounting changes are required.