

Making Corporate Exit Easier: Reforming Company Liquidation in Pakistan

Pakistan has made progress in simplifying company incorporation through electronic registration. However, the liquidation of a solvent company remains lengthy, costly, and procedurally complex.

Only around 10–40 local companies reportedly undergo formal winding up annually, while many others use simplified exit mechanisms. Businesses often avoid formal liquidation because of limited professional expertise, complex compliance requirements, and delays involving the Securities and Exchange Commission of Pakistan (SECP) and the Federal Board of Revenue (FBR).

Although the Companies Act, 2017 envisages the completion of Members' Voluntary Winding Up within one year, the process can take several years in practice. These delays lock up capital, increase administrative costs, and undermine investor confidence.

Formal Liquidation and Simplified Exit Mechanisms

Part X of the Companies Act, 2017, beginning with Section 293, provides the legal framework for winding up companies through court-supervised, voluntary, and court-supervised voluntary procedures.

For a solvent company whose shareholders wish to avoid court proceedings, Members' Voluntary Winding Up is generally a suitable option. However, the practical experience of an unlisted public limited company demonstrates that even a straightforward liquidation can encounter significant regulatory obstacles.

Case Study: A Four-Year Liquidation Process

The company examined in this case study could not obtain the regulatory licence required to conduct its principal business, as specified in its memorandum of association. Following the regulator's refusal on technical grounds, continuing operations became impractical.

The company had negligible fixed assets, while its paid-up capital and accumulated investment earnings were held in bank accounts. Given its straightforward financial position, liquidation was initially expected to take less than a year.

Instead, the process extended beyond four years, primarily because of regulatory delays, tax-clearance difficulties, and uncertainty surrounding the final dissolution process.



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Limited Availability of Professional Liquidators

Before appointing an individual liquidator, the directors approached several leading audit firms, but none accepted the assignment.

The firms reportedly cited unlimited statutory liability, uncertain timelines, and reputational risks. Some offered consultancy services instead, leaving the appointed liquidator responsible for statutory compliance.

An individual professional accountant was eventually appointed. The process began with the Board's Declaration of Solvency, a special resolution of the members, and the appointment of a qualified liquidator with agreed remuneration. Statutory notices were subsequently published in national English- and Urdu-language newspapers and the Official Gazette.

Upon appointment, the liquidator assumed responsibility for the company's assets, liabilities, statutory filings, and distribution of surplus funds. However, progress stalled when SECP filings required compliance with Section 141 of the applicable tax law.

FBR IRIS System: A Major Compliance Bottleneck

Absence of an Appropriate Online Form

Section 141 required the liquidator to notify the Tax Commissioner within 14 days of appointment or taking control of the company's assets. The tax authority was allowed 90 days to determine outstanding tax liabilities and inform the liquidator of the amount to be reserved before any distribution to shareholders or creditors.

The liquidator could also face personal responsibility for a shortfall if funds were distributed without meeting the statutory requirements.

When the liquidator approached FBR for the required authorisation letter, officials directed the application through the Iris online system. However, the necessary form was unavailable on the platform.

Repeated visits and meetings with tax officials, including senior commissioners, failed to resolve the issue promptly. Although the matter was referred to the relevant Inland Revenue members, the response indicated that uploading the form would take time.

Intervention by the Federal Tax Ombudsman

After prolonged delays, the liquidator approached the Federal Tax Ombudsman (FTO). Following the hearing, FBR was directed to issue the letter manually.

However, the letter did not adequately establish the final tax demand or fully satisfy the legal requirement. As shareholders continued to demand the release of funds, the liquidator sought professional advice and assessed the amount that could be distributed without compromising potential tax payments.

The liquidator subsequently issued three letters to FBR, explaining that the delay resulted from the absence of an appropriate facility on the department's system. With no substantive response, the paid-up capital was distributed to identified shareholders, while unclaimed amounts were deposited with the State Bank of Pakistan (SBP) under the prescribed procedure.

The retained earnings remained in the company's bank account until the required authorisation was received. A third-party escrow arrangement was not available as an alternative for holding the liquidation funds.

Personal Liability, Remuneration and Shareholder Pressure

The prolonged process placed disproportionate responsibility on the individual liquidator. While audit firms could have provided institutional support, they were not willing to assume the statutory role themselves.

As the assignment extended beyond expectations, shareholders increasingly questioned the liquidator's monthly allowance and perceived delays as being in his personal financial interest. In reality, the principal obstacles were external regulatory requirements beyond his control.

The liquidator also faced financial pressure because the monthly allowance was not necessarily adjusted for inflation. Meanwhile, directors and shareholders sought rapid closure without always appreciating the legal consequences of premature distributions or non-compliance.

These circumstances created friction between the liquidator and the board, even though the liquidator was legally responsible for ensuring compliance.

Public-Sector Governance and Compliance Risks

The challenges can be particularly acute for unlisted public companies associated with banks, institutional shareholders, or nominee directors.

Unlike some private-sector environments where informal practices may influence administrative processes, public-sector entities and regulated institutions operate under scrutiny from investigative bodies, including the Federal Investigation Agency (FIA) and the National Accountability Bureau (NAB).

Shareholders also approached the Federal Ombudsman over delays in releasing funds. However, unauthorised shortcuts or premature distributions could expose both the liquidator and individual directors to regulatory and legal consequences.

The liquidator therefore had to act as a safeguard against decisions that could compromise statutory compliance, despite pressure to accelerate the process.

Maintaining Compliance During Prolonged Liquidation

While awaiting FBR's authorisation, the liquidator continued to comply with Section 415 of the Companies Act, 2017.

This involved:

- Preparing semi-annual financial statements and obtaining independent statutory audits.
- Preparing interim liquidator reports.
- Convening biannual Extraordinary General Meetings (EOGMs) to present audited accounts and reports to members.
- Submitting meeting minutes, accounts, and reports to SECP.

After sustained efforts, FBR issued another manual authorisation letter at the end of May 2025. The liquidation had commenced in late March 2022, meaning that more than three years had elapsed before this critical requirement was resolved.

Following receipt of the authorisation, the members approved the distribution of a portion of retained earnings and the reservation of funds for liquidation expenses. Dividends were distributed after withholding applicable income tax, while amounts relating to unidentifiable shareholders were deposited with SBP in accordance with the prescribed procedure.

Final Dissolution: Uncertainty Under Section 359

Even after settling tax demands and distributing surplus assets, the final dissolution stage presents further challenges.

Under Section 418 of the Companies Act, 2017, the liquidator convenes the final meeting to present the final accounts and report. However, SECP does not provide a standardised statutory template for the Liquidator's Final Report, potentially leading to inconsistent assessments across company registration offices.

Section 359 introduces further uncertainty. After receiving the final report and audited accounts, SECP scrutinises the documents and determines whether to register them. The company is deemed dissolved after 90 days from registration.

However, the absence of publicly available, transparent scrutiny benchmarks leaves liquidators uncertain about acceptance criteria, registration timelines, and the possibility of repeated queries.

In this case, the final accounts were expected to be closed in the first week of July 2026, with the final EOGM scheduled for mid-September 2026. Nevertheless, the ultimate dissolution date remained unpredictable.

Unmitigated Personal Risk

Individual liquidators may face unforeseen regulatory objections, penalties, legal costs, and post-closure administrative expenses without the financial resources available to institutional firms. Once company funds have been distributed to shareholders or deposited with SBP, the liquidator may be left personally exposed.

To reduce this risk, individual liquidators should seek formal indemnity resolutions approved at the final EOGM and maintain comprehensive records of all correspondence until SECP's registration of the final documents is confirmed.

Policy Recommendations for Faster Corporate Exit

Pakistan needs a more predictable, transparent, and efficient corporate dissolution framework. The following reforms could help reduce delays and protect all parties involved.

Integrate SECP and FBR Digital Systems

Develop application programming interface (API) integration between SECP eServices and FBR Iris to facilitate tax notifications, authorisations, and status tracking.

Introduce Statutory Deemed-Clearance Mechanisms

Establish a binding timeline for FBR to determine tax liabilities under Section 141. For example, if the tax authority fails to communicate its assessment within 90–120 days, a legally defined deemed-clearance mechanism could apply, subject to appropriate safeguards and clearly specified exceptions.

Standardise the Section 359 Review Process

SECP should publish a clear scrutiny checklist, prescribe a standard template for the Liquidator's Final Report, and establish binding timelines for reviewing and registering final documents. A 30-day review target could improve predictability.

Protect Liquidator Remuneration and Provide Indemnity

Clarify the rules governing liquidators' remuneration and monthly allowances, including appropriate inflation adjustments for prolonged assignments. Provide clear guidance on indemnity arrangements and the protection of professionals acting in good faith while complying with statutory requirements.

Establish Dedicated Corporate Dissolution Desks

Create specialised liquidation units within FBR Regional Tax Offices and SECP Company Registration Offices to handle solvent voluntary liquidations separately from insolvency cases. Dedicated personnel could improve coordination, technical guidance, and accountability.

Conclusion: A Predictable Exit Framework is Essential for Investment

A business environment that makes incorporation easy but liquidation difficult can leave capital trapped in dormant companies, increase compliance costs, and expose professional liquidators to disproportionate risks.

Pakistan should streamline its corporate exit framework through digital integration, time-bound tax clearance, transparent SECP scrutiny, and stronger safeguards for liquidators.

Efficient liquidation would release capital for productive investment, reduce disputes among shareholders and directors, improve regulatory accountability, and strengthen investor confidence. A business-friendly economy requires not only an efficient process for starting a company, but also a clear, fair, and timely mechanism for closing one.

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