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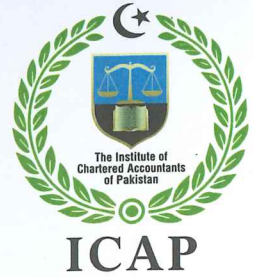
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Circular No. 3/2025

August 04, 2025

**ALL MEMBERS OF THE INSTITUTE**

Dear Member

**Clarification on Accounting Framework applicable to the financial statements of Public Sector Companies defined under sub-section (54) of section 2 of the Companies Act, 2017, as per requirements of State-Owned Enterprises (Governance and Operations) Act, 2023**

This clarification is being issued based on our earlier communication and clarification received from Central Monitoring Unit, Finance Division, Government of Pakistan on the subject.

Section 3 of State-Owned Enterprises (Governance and Operations) Act, 2023 (here-in-after referred to as 'SOE Act, 2023'), inter-alia, states that this Act shall have application to all public sector companies as defined in sub-section (54) of section 2 of the Companies Act, 2017.

Section 2(54) of the Companies Act, 2017 defines public sector company as follows:

*"(54) **public sector company**" means a company, whether public or private, which is directly or indirectly controlled, beneficially owned or not less than fifty-one percent of the voting securities or voting power of which are held by the Government or any agency of the Government or a statutory body, or in respect of which the Government or any agency of the Government or a statutory body, has otherwise power to elect, nominate or appoint majority of its directors and includes a public sector association not for profit, licensed under section 42:*

*Provided that nomination of directors by the Commission on the board of the securities exchange or any other entity or operation of any other law shall not make it a public sector company;"*

Accordingly, the requirements of SOE Act, 2023 become applicable on companies formed and registered under the Companies Act, 2017 or the company law, falling within ambit of definition of public sector company as provided in Section 2(54) of the Companies Act, 2017.

Section 25 (2) of the State-Owned Enterprises (Governance and Operations) Act, 2023 in respect of financial statements of State-Owned Enterprises (SOEs) [including those of public sector companies as explained above] stipulates as follows:

***"(2) The financial statements must be prepared in accordance with International Financial Reporting Standards and the financial statements together with the notes to them must include all information that is necessary to ensure the financial statements give a true and fair view of the financial position of the state-owned enterprise and the group consisting of the state-owned enterprise and its subsidiaries:***

***Provided that where a state-owned enterprise is not following the International Financial Reporting Standards at the time of coming into effect of this Act, the Board shall ensure compliance with this provision within a period of three years from coming into effect of this Act.*** [Bold & Italic Ours]

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In view of above, a public sector company falling within ambit of section 2(54) of the Companies Act, 2017, has to follow requirements of full IFRS Accounting Standards applicable to the company (based on its facts and circumstances) issued by International Accounting Standards (IASB) and effective to date (as per IASB notified effective date) without regard to any exemption(s), deferments of IFRS Accounting Standards provided by Securities and Exchange Commission of Pakistan (SECP) or any IFRS Accounting Standard which is pending adoption by Securities and Exchange Commission of Pakistan under section 225 of the Companies Act, 2017, within three years of coming into effect of SOE Act, 2023 on January 30, 2023, in preparation of its financial statements issued after January 30, 2026, as the three years period of effectiveness of SOE Act, 2023 is completed by January 30, 2026.

The above view is confirmed by clarification received from CMU, Finance Division dated July 01, 2025, which states that SOE Act, 2023, provides unequivocal guidance on the applicable financial reporting framework for State-Owned Enterprises (SOEs), particularly in Section 25(2), which mandates the preparation of financial statements in accordance with IFRS Accounting Standards. The language used in SOE Act, 2023 does not make any reference to "IFRS as notified by SECP" or allow for local exemptions. This signifies a deliberate legislative intent to ensure full compliance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB), without deviation or adaptation through national notification processes. Consequently, application of IFRS Accounting Standards with exemptions, whether by SECP or otherwise, would fall short of the statutory requirements prescribed under the SOE Act, 2023.

Further, we would like to draw attention to Section 225(4) of the Companies Act, 2017 which allows companies to follow full IFRS as issued by IASB. Section 225(4) states as follows:

*"(4) Notwithstanding anything in this Act any company that intends to make unreserved compliance of IFRS issued by the IASB shall be permitted to do so.*

*Explanation. — The expression "IFRS" means International Financial Reporting Standards and the expression "IASB" means International Accounting Standards Board."*

*(Italic Ours)*

Further, Section 3 of SOE Act, 2023 states as follows:

"3. Scope and application. — (1) Notwithstanding anything contained in any other law for the time being in force, this Act shall have application to all public sector companies as defined in sub-section (54) of section 2 of the Companies Act, 2017 (XIX of 2017) and....."

From the above provision of SOE Act, 2023, it seems that the requirements of SOE Act, 2023 shall remain applicable on public sector companies despite requirements of other laws applicable to them.

In view of above, we hereby advise our members to ensure compliance with the requirements of Section 25 (2) of the State-Owned Enterprises (Governance and Operations) Act, 2023 in preparation of financial statements of public sector companies and other SOEs falling within the ambit of Section 3 of the SOE Act, 2023.

Yours truly,

  
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Director, Technical Services

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