



## PAKISTAN STOCK BROKERS ASSOCIATION

(A company setup under section 42 of the Companies Act 2017)

Regd Office: Mezzanine Floor, Trading Hall, Stock Exchange Building, Stock Exchange Road,  
Off I.I Chundrigar Road, Karachi.

Tel: 021-32401278, E-mail: [secretariat@psba.pk](mailto:secretariat@psba.pk), Web: [www.psba.pk](http://www.psba.pk), Fax: 021-32401279

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May 29, 2024

### NOTICE FOR MEMBERS

#### STOCK SPLIT OVERVIEW AND PROCEDURE

Dear Members,

This is in reference to the consent paper dated May 29, 2024 (attached), whereby the PSX has invited the comments:

In this regard, the members are hereby requested to kindly submit your comments, if any, at [psamail024@gmail.com](mailto:psamail024@gmail.com) latest by **June 03, 2024**, so that a consolidated response can be forwarded to the authorities for their consideration.

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AKBER ALI

Officer - Secretariat

Copy to:

1. PSBA Website

# Stock Split *Overview and Procedure*



**Pakistan Stock Exchange**





## **Table of Contents**

Introduction.....	1
Benefits of Stock Split.....	1
Increased Market Accessibility:.....	
Wider Market Reach:.....	
Comparable Value:.....	
Signaling Effect:.....	
Diffused Ownership:.....	
Liquidity and Stability:.....	
Defense Mechanism:.....	
Examples of Stock Split in three top companies.....	2
History of Apple Stock Split:.....	
History of Amazon Stock Split:.....	
History of Tesla Stock Split:.....	
International Practices.....	2
Recent Stock Splits in India:.....	
Recent stock split in US:.....	
Legal framework for Stock Splits in Pakistan.....	3
Data Analysis.....	3
Procedure for Executing a Stock Split.....	4
References relating to Stock Split.....	4

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## **Introduction**

Stock split is a strategic corporate decision that does not involve any cash transaction. It entails converting one share of higher value into a specific number of shares of lower value in a predetermined ratio. This action aims to make the shares more affordable and accessible to a broader range of investors. Therefore, a stock split is purely an accounting adjustment in the company's records and does not impact its assets or liabilities.

Stock splits have become increasingly prevalent globally, with a growing number of companies opting for this strategy in various advanced economies.

American Institute of Certified Public Accountants (AICPA) has defined stock splits as “any increase in number of shares of a given class without changing of equity amount whereas increase in number of shares accompanied by increase in total value of that class is called as stock dividend”.

U.S. Securities and exchange commission defines stock split as “a declaration that has no effect on the value of what shareholders own. When a company declares a stock split, the price of the stock will decrease, but the number of shares will increase proportionately”.

## **Benefits of Stock Split**

### **Increased Market Accessibility:**

Stock splits are often implemented when a company's stock price has risen significantly, making it less accessible to small investors. By reducing the stock price through a split, the shares become more affordable and within the trading range of a broader investor base.

### **Wider Market Reach:**

Stock splits lead to an increase in the number of outstanding shares, resulting in a greater number of transactions and a wider market for the company's shares. This increased liquidity can attract more investors and enhance market participation.

### **Comparable Value:**

By reducing the value of shares through a stock split, companies can align their stock prices with industry peers, making them more comparable and competitive in the market.

### **Signaling Effect:**

The declaration of a stock split can serve as a signaling mechanism to convey favorable private information about the company's future prospects and earnings to investors. It indicates the management's confidence in the company's future performance and operations.

### **Diffused Ownership:**

Stock splits can help in diffusing ownership among a larger base of shareholders, reducing the concentration of control in the hands of a few investors. This can enable management to maintain control over company operations without undue interference.



## Liquidity and Stability:

Companies may opt for stock splits to enhance liquidity and stability in their stock prices. Lower-priced shares are often perceived to attract more trading activity and contribute to market stability.

## Defense Mechanism:

Stock splits can act as a defense strategy against potential hostile takeovers by increasing the number of shares in circulation and making the acquisition of a controlling stake more challenging for external entities.

## Examples of Stock Split in three top companies

### History of Apple Stock Split:

Date	Split ratio	Price before split
16 June 1987	2:1	\$79 (31 May 1987)
21 June 2000	2:1	\$111 (31 May 2000)
28 February 2005	2:1	\$90 (31 January 2005)
9 June 2014	7:1	\$656 (31 May 2014)
31 August 2020	4:1	\$425 (31 July 2020)

### History of Amazon Stock Split:

Date	Split ratio	Price before split
2 June 1998	2:1	\$85 (1 June 1998)
5 January 1999	3:1	\$354 (4 January 1999)
2 September 1999	2:1	\$119 (1 September 1999)

### History of Tesla Stock Split:

Date	Split ratio	Price before split
31 August 2020	5:1	\$2211 (28 August 2020)

## International Practices

In global markets, many developed stock exchanges encourage their publicly listed companies to consider stock splits when their share prices are high. Most of the stock exchanges have provided guidelines on how, after the approval of board and shareholder meetings, the company will inform the stock exchange and follow a specific process. The process steps involve informing the exchange about the record date, notifying investors through a public announcement, and possibly suspending trade during the process. Some exchanges provide specific timelines for companies to perform tasks related to the stock split, while most give companies the flexibility to proceed as needed.

## Recent Stock Splits in India:

Company	Old Face Value	New Face Value	Split Date
Davangere Sugar	10	1	31-05-2024
Bharat Dynamics	10	5	24-05-2024
Som Distilleries	5	2	24-05-2024



Vardhman Poly	10	1	17-05-2024
Canara Bank	10	2	15-05-2024
SONAM	10	5	10-05-2024

### Recent stock split in US:

Date	Company Name	Split Ratio
May 7, 2024	Southern Copper Corp	1.01 for 1
Apr 25, 2024	X3 Holdings Co Ltd.	1.06 for 1
Apr 18, 2024	Gerdau SA	1.2 for 1
Apr 15, 2024	Frp Holdings Inc.	2 for 1
Mar 28, 2024	Old Dominion Freight Line Inc.	2 for 1
Mar 27, 2024	Texas Pacific Land Corp	3 for 1

## Legal framework for Stock Splits in Pakistan

In Pakistan, stock splits can be legally carried out under Section 85 (1) (c) of the Companies Act, 2017. 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's regulations also allow for share splits under Chapter 8D “Consolidation or Sub-division of Securities”. Clearly, the legal framework for stock splits in Pakistan is well-established and straightforward.

## Data Analysis

Listing Department analyzed companies traded on PSX on from May 01, 2023 till April 30, 2024. It was observed that companies with higher stock prices tended to have lower trading volumes compared to those with lower prices. The table and graph below illustrate our findings.

Price Band (in PKR)	No. of Companies	Average Trading volume
0-100	345	252,253,436
101-500	90	134,819,708
501-1000	16	30,182,910
1001-5000	11	2,227,911
Above 5000	3	36,518





Stock splits can be an effective tactic for companies with high stock prices to enhance market liquidity, facilitate price discovery, attract retail investors, and boost market capitalization. By raising awareness about the benefits of stock splits and encouraging companies to consider this approach, opportunities for enhanced trading activity, improved price transparency, increased participation from individual investors, and overall growth in market value can be achieved.

## **Procedure for Executing a Stock Split**

- 1. Holding of Board Meeting:** The company to convene a board meeting to approve the subdivision of company shares by reducing their share price.
- 2. General Meeting of Shareholders:** A general meeting of shareholders would be held to obtain approval for the subdivision of shares and amendments to the Memorandum & Articles of Association related to their authorized capital.
- 3. Compliance with CDC Requirements:** The company to liaise with the Central Depository Company (CDC) to comply with requirements, including the cancellation of existing shares and the crediting of new shares to shareholders' accounts. Additionally, applicable fees may be paid for the induction of new shares into the Central Depository System (CDS).
- 4. Announcement of Book Closure:** The company would announce the dates of book closure to implement the change in the value of shares.
- 5. Trading Suspension:** Upon the announcement of book closure, the Exchange would suspend trading in the company's shares on a BC-2 basis, where BC represents the book closure date.
- 6. Resumption of Trading:** Trading in the company's shares would resume on the Exchange once the company submits the following to the Exchange:
  - Confirmation from CDC regarding the crediting of new shares to shareholders' accounts.
  - Revised details of the free-float of shares.

## **References relating to Stock Split**

The Listing Department, conducted a research in order to ascertain the international practices that are being followed regarding Stock Split. The website links for the same are stated under for the ready reference:

- [https://www.raijmr.com/ijrmp/wp-content/uploads/2021/10/5\\_17-23-Anjali-Gupta.pdf](https://www.raijmr.com/ijrmp/wp-content/uploads/2021/10/5_17-23-Anjali-Gupta.pdf)
- <https://stockexchange.mv/files/regulations/Listing%20Rules%20Maldives%20Stock%20Exchange.pdf>
- <https://www.ig.com/en/trading-strategies/everything-you-need-to-know-about-stock-splits-and-reverse-stock-210512>
- <https://stockanalysis.com/actions/splits/>
- <https://www.moneycontrol.com/stocks/marketinfo/splits/index.php>
- <https://www.cdcpakistan.com/assets/uploads/2024/05/CDCPL-REGULATIONS-MASTER-COPY-December-2023.pdf>
- <https://www.secp.gov.pk/document/companies-act-2017/?wpdmdl=28472>