

VOL. XI ISSUE I, WINTER (MARCH-2026)

GPR

GLOBAL POLITICAL REVIEW
HEC-RECOGNIZED CATEGORY-Y

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DOI (Journal): 10.31703/gpr
DOI (Volume): 10.31703/gpr.2026(XI)
DOI (Issue): 10.31703/gpr.2026(XI-I)

Double-blind Peer-review Research
Journal

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GLOBAL POLITICAL REVIEW (GPR)

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Keywords: Corporate Restructuring, Insolvency, Corporate Rehabilitation, Corporate Governance, SECP, Companies Act 2017, Corporate Rehabilitation Act 2018, Pakistan, Rescue Culture, Distressed Firms

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Pages: 96-106

DOI: 10.31703/gpr.2026(XI-I).08

DOI link: [https://dx.doi.org/10.31703/gpr.2026\(XI-I\).08](https://dx.doi.org/10.31703/gpr.2026(XI-I).08)

Article link: <https://gprjournal.com/article/reviving-the-distressed-firm-legislative-reform-and-corporate-governance-in-pakistans-restructuring-regime>

Full-text Link: <https://gprjournal.com/article/reviving-the-distressed-firm-legislative-reform-and-corporate-governance-in-pakistans-restructuring-regime>

Pdf link: <https://www.gprjournal.com/jadmin/Auther/3urVloIA2.pdf>

Global Political Review

p-ISSN: 2521-2982 e-ISSN: 2707-4587

DOI (journal): 10.31703/gpr

Volume: XI (2026)

DOI (volume): 10.31703/gpr.2026(XI)

Issue: I Winter (March-2026)

DOI(Issue): 10.31703/gpr.2026(XI-I)

Home Page

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Volume: XI (2026)

<https://www.gprjournal.com/Current-issue>

Issue: I-Winter (March-2026)

<https://www.gprjournal.com/issue/11/1/2026>

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Citing this Article

Article Serial	o8
Article Title	Reviving the Distressed Firm: Legislative Reform and Corporate Governance in Pakistan's Restructuring Regime
Authors	Abida Hassan
DOI	10.31703/gpr.2026(XI-I).o8
Pages	96-106
Year	2026
Volume	XI
Issue	I

Referencing & Citing Styles

APA	Hassan, A. (2026). Reviving the Distressed Firm: Legislative Reform and Corporate Governance in Pakistan's Restructuring Regime. <i>Global Political Review</i> , 11(1), 96-106. https://doi.org/10.31703/gpr.2026(XI-I).o8
CHICAGO	Hassan, Abida. 2026. "Reviving the Distressed Firm: Legislative Reform and Corporate Governance in Pakistan's Restructuring Regime." <i>Global Political Review</i> 11 (1):96-106. doi: 10.31703/gpr.2026(XI-I).o8.
HARVARD	HASSAN, A. 2026. Reviving the Distressed Firm: Legislative Reform and Corporate Governance in Pakistan's Restructuring Regime. <i>Global Political Review</i> , 11, 96-106.
MHRA	Hassan, Abida. 2026. 'Reviving the Distressed Firm: Legislative Reform and Corporate Governance in Pakistan's Restructuring Regime', <i>Global Political Review</i> , 11: 96-106.
MLA	Hassan, Abida. "Reviving the Distressed Firm: Legislative Reform and Corporate Governance in Pakistan's Restructuring Regime." <i>Global Political Review</i> 11.1 (2026): 96-106. Print.
OXFORD	Hassan, Abida (2026), 'Reviving the Distressed Firm: Legislative Reform and Corporate Governance in Pakistan's Restructuring Regime', <i>Global Political Review</i> , 11 (1), 96-106.
TURABIAN	Hassan, Abida. "Reviving the Distressed Firm: Legislative Reform and Corporate Governance in Pakistan's Restructuring Regime." <i>Global Political Review</i> 11, no. 1 (2026): 96-106. https://dx.doi.org/10.31703/gpr.2026(XI-I).o8 .

Reviving the Distressed Firm: Legislative Reform and Corporate Governance in Pakistan's Restructuring Regime



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Abstract

Corporate restructuring rescuing financially distressed yet viable companies rather than liquidating them has become central to Pakistan's economic reform agenda. This article examines the evolution of Pakistan's legislative, institutional, and corporate-governance frameworks governing financial distress. It traces the transition from the winding-up-oriented regime of the Companies Ordinance 1984 to a modern rescue framework encompassing the Corporate Restructuring Companies Act 2016, the Companies Act 2017, and the Corporate Rehabilitation Act 2018 under SECP and State Bank oversight. The article argues that while Pakistan has assembled the statutory components of a rescue culture, implementation remains hampered by weak enforcement, judicial capacity constraints, underdeveloped service markets, and firm-level governance deficiencies. Incorporating recent 2025–2026 SECP initiatives and IMF/World Bank reform commitments, the paper offers recommendations for a balanced restructuring regime, treating legal rescue as inherently linked to corporate governance.

Keywords: *Corporate Restructuring, Insolvency, Corporate Rehabilitation, Corporate Governance, SECP, Companies Act 2017, Corporate Rehabilitation Act 2018, Pakistan, Rescue Culture, Distressed Firms*

Introduction

Every economy must decide what to do with its failing firms. The choice is rarely binary between survival and death; it is a question of process of the legal mechanisms through which a distressed company's affairs are reorganised, its debts renegotiated, and its future determined. Where those mechanisms favour prompt liquidation, viable enterprises are dismembered, jobs are lost, and value that might have been preserved is destroyed. Where they favour rescue, distressed but fundamentally sound businesses are given the breathing space and the legal tools to recover. The design of the restructuring regime is thus a matter of considerable economic consequence, and its reform has become a recurring theme of Pakistan's engagement with its own corporate sector and with the international financial institutions.

Pakistan's corporate sector has grown substantially: tens of thousands of companies are now registered each year with the Securities and Exchange Commission of Pakistan (SECP), and the corporate form has become the ordinary vehicle of formal enterprise. With that



growth has come a corresponding need for a modern framework to address corporate distress. For much of the country's history, that framework was oriented toward winding up rather than rescue toward the orderly liquidation of an insolvent company rather than its rehabilitation. Over the past decade, a series of legislative interventions has sought to reorient the regime toward rescue, importing into Pakistani law the rescue-culture principles that have reshaped insolvency systems elsewhere.

This article examines that reorientation. It has three principal concerns. The first is the legislative architecture of corporate restructuring: the statutes through which Pakistan has attempted to build a rescue-oriented regime, and the relationships among them. The second is the institutional and governance framework: the roles of the SECP and the State Bank of Pakistan, the corporate restructuring companies licensed to acquire and rehabilitate distressed assets, and the corporate-governance regime that shapes both the incidence of distress and the conduct of its resolution. The third is the reform trajectory: the pressures, domestic and international, driving continued change, and the deficiencies that reform must still address. The article's central claim is that Pakistan has assembled the statutory building blocks of a rescue culture but has not yet secured the enforcement, capacity, and governance conditions on which their effectiveness depends.

The analysis proceeds as follows. Section 2 traces the historical evolution of the framework from the Companies Ordinance 1984 to the present. Section 3 examines the three pillars of the modern legislative regime. Section 4 turns to the institutional architecture and the market for restructuring. Section 5 addresses the corporate-governance dimension. Section 6 considers the reform trajectory and the influence of the international financial institutions. Section 7 offers an analysis of the persistent gaps, and Section 8 sets out recommendations before the conclusion.

The Evolution of the Framework

The modern Pakistani framework for corporate distress is best understood as a departure from an older paradigm centred on liquidation. Tracing that departure clarifies both the ambitions of the recent reforms and the legacy assumptions they have had to overcome.

The Liquidation Paradigm of the Companies Ordinance 1984

For nearly three decades, the corporate sector in Pakistan was governed by the Companies Ordinance 1984, which consolidated and amended the law relating to companies and replaced the colonial-era company legislation inherited at independence. The Ordinance encompassed the legal rules for companies registered with the SECP and was enforced by that agency. Its treatment of corporate distress, however, reflected the assumptions of an earlier era: the dominant response to insolvency was winding up the court-supervised liquidation of the company, the realisation of its assets, and the distribution of the proceeds among creditors according to statutory priorities. Rescue, in the sense of a structured effort to return a viable but distressed company to profitability, was not the organising purpose of the regime.

This liquidation orientation was not peculiar to Pakistan; it characterised many company-law systems built on the older common-law model, in which insolvency law

served primarily to distribute the estate of a failed enterprise rather than to preserve a going concern. But as economic thinking about insolvency evolved internationally recognising that the premature liquidation of viable firms destroys value and that a well-designed rescue process can preserve enterprises, employment, and creditor recoveries the limitations of a purely liquidation-centred regime became increasingly apparent. Pakistan's reforms of the last decade must be read as a response to that shift.

The Turn Toward a Rescue Culture

The reorientation took legislative form in three principal instruments enacted or consolidated between 2016 and 2018: the Corporate Restructuring Companies Act [2016](#), the Companies Act [2017](#), and the Corporate Rehabilitation Act [2018](#). Together these represent a deliberate attempt to build a rescue culture to create legal mechanisms through which distressed companies can be reorganised and rehabilitated rather than simply wound up. The Companies Act [2017](#) replaced the [1984](#) Ordinance as the cornerstone of company law, modernising the governance and disclosure framework and retaining the winding-up provisions for cases where closure is unavoidable. Alongside it, the Corporate Restructuring Companies Act created a specialised vehicle for acquiring and rehabilitating distressed assets, while the Corporate Rehabilitation Act supplied a court-supervised rehabilitation procedure as a constructive alternative to liquidation.

The significance of this legislative cluster lies in its intent. Rather than treating insolvency solely as an occasion for distribution, the new framework treats distress as a condition that may be reversible and provides tools designed to reverse it. As one practitioner account puts it, the aim of the rehabilitation procedure is to restore a financially distressed company to profitability before liquidation is ever reached. The following section examines each of the three pillars in turn.

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The Three Pillars of the Legislative Regime

The modern restructuring framework rests on three legislative pillars, each addressing a distinct aspect of corporate distress. The Corporate Restructuring Companies Act 2016 creates the institutional vehicle for acquiring and rehabilitating distressed assets; the Companies Act [2017](#) supplies the general corporate-law foundation, including the residual winding-up regime; and the Corporate Rehabilitation Act [2018](#) provides the court-supervised rescue procedure. Understanding how these instruments fit together is essential to appraising the regime as a whole.

The Corporate Restructuring Companies Act 2016

The Corporate Restructuring Companies Act 2016, passed by the National Assembly and the Senate in 2016 after extensive stakeholder consultation led by the SECP, introduced a new form of business into Pakistani law: the corporate restructuring company (CRC). The Act declares corporate restructuring a distinct business activity and provides for the establishment, licensing, and regulation of the companies that carry it on, whose purpose is to render financially and operationally distressed companies viable once more. A CRC is a public limited company licensed by the SECP to conduct this business, and the Act was

designed as an independent and comprehensive statute because the specialised features and requirements of such companies could not be accommodated within the general company law.

A central function of the CRC framework is the treatment of non-performing assets held by financial institutions. The Act permits a financial institution to transfer and assign its non-performing assets to a corporate restructuring company one not owned or controlled by that institution or its affiliates by means of a transfer-and-assignment agreement on mutually agreed terms. For certain purposes a CRC is deemed a financial institution under the recovery-of-finances legislation, though it is not treated as a banking company. The establishment of CRCs was enabled in parallel by the State Bank of Pakistan, which issued the banking-regulation circular giving effect to the framework within the financial sector. The design thus links the restructuring of distressed corporate borrowers to the broader problem of non-performing loans that burdens the banking system.

The Companies Act 2017

The Companies Act [2017](#) is the cornerstone of contemporary company law in Pakistan, replacing the [1984](#) Ordinance and introducing significant reforms to incorporation, governance, disclosure, and compliance. For the purposes of restructuring, its importance is twofold. First, it houses the winding-up provisions that govern liquidation where rescue is not feasible, ensuring that the rescue-oriented instruments operate against a coherent liquidation backstop. Second, and less obviously, its governance and disclosure reforms bear directly on the conditions in which distress arises and is managed: stronger disclosure, clearer directors' duties, and enhanced regulatory oversight all shape the environment within which a company approaches, enters, and emerges from distress.

The Act also provides mechanisms short of formal insolvency that are relevant to restructuring, including arrangements and compositions with creditors that a court may recognise formal agreements to pay part of what is owed, which can avoid full adjudication. These mechanisms sit alongside the dedicated rehabilitation procedure and expand the menu of options available to a distressed company and its creditors. Company matters, including winding up and court-supervised arrangements, fall within the supervisory orbit of the SECP, with contentious matters heard by the relevant High Court.

The Corporate Rehabilitation Act 2018

The Corporate Rehabilitation Act [2018](#) is the keystone of the rescue framework. It supplies the constructive alternative to liquidation: rather than winding up a viable but distressed business, it permits a court-approved rehabilitation plan, supervised by an insolvency expert drawn from a panel maintained by the SECP in consultation with the State Bank of Pakistan. The object of the procedure is to restore a financially distressed colloquially, a "sick" company to profitability before liquidation becomes necessary. The Act thereby institutionalises the rescue-culture premise that distress is often reversible and that the legal system should provide a structured path to recovery.

The role of the insolvency expert is central to the design. By interposing a qualified, court-supervised professional between the distressed company and its creditors, the Act

seeks to bring discipline, expertise, and impartiality to the rehabilitation process. The maintenance of a panel of such experts by the SECP an ongoing regulatory function reflected in the Commission's periodic panel notifications under Section 5 of the Act is intended to ensure a supply of qualified professionals capable of supervising rehabilitations. The effectiveness of the procedure depends heavily on the depth and quality of this panel and on the capacity of the courts that supervise it, matters to which the analysis returns below.

Institutional Architecture and the Market for Restructuring

Legislation supplies the framework; institutions make it operate. The Pakistani restructuring regime is administered through a set of interlocking institutions the SECP as principal regulator, the State Bank of Pakistan in the financial-sector dimension, the courts as adjudicators, and the corporate restructuring companies as market actors whose coordination determines whether the statutory framework achieves its purpose.

The Securities and Exchange Commission of Pakistan

The SECP is the central institution of the regime. Established to develop a modern and efficient corporate sector, capital markets, and non-bank financial sector, it licenses corporate restructuring companies, maintains the panel of insolvency experts, supervises company matters including winding up, and administers the corporate-governance framework. Its role is simultaneously regulatory and developmental: it is charged not only with enforcing the existing rules but with advancing the reform of the restructuring and insolvency regime. In recent years the Commission has publicly reaffirmed its commitment to a robust corporate-rehabilitation framework and has engaged directly with the corporate restructuring companies and the banking industry to strengthen the mechanisms for business revival and the restructuring of non-performing loans (Pakistan Today, [2025](#)).

The SECP has also positioned itself as the convenor of reform. It has hosted stakeholder consultations on insolvency and debt-enforcement reform that brought together the judiciary, regulators, and the banking industry alongside experts from the World Bank and the International Monetary Fund ([2025](#)), who shared international best practices and recommendations for aligning Pakistan's legal framework with globally recognised standards. This convening role reflects the Commission's recognition that legislative text alone is insufficient and that an effective regime requires the alignment of courts, creditors, regulators, and professionals around a shared rescue orientation.

Corporate Restructuring Companies and the Non-Performing-Loan Problem

The corporate restructuring companies are the market actors intended to operationalise the acquisition and rehabilitation of distressed assets. Entities such as the Pakistan Corporate Restructuring Company Limited and the Awwal Corporate Restructuring Company Limited have been licensed to carry on this business, and the SECP has assured them of regulatory support while urging them to expand their outreach to industry stakeholders and to play a more proactive role in business revival. Their function connects the corporate-rescue objective to the financial-sector imperative of resolving non-

performing loans: by acquiring distressed assets from financial institutions and working to rehabilitate the underlying businesses, CRCs are meant to relieve bank balance sheets while preserving viable enterprises.

The Commission has emphasised the importance of coordination among the CRCs, commercial banks, and development finance institutions, recognising that the restructuring of distressed corporate debt cannot succeed without the cooperation of the lenders who hold it. The effectiveness of this market, however, depends on its depth. A regime with only a handful of licensed restructuring companies, operating in an environment where creditors and courts are not fully aligned with the rescue objective, cannot by itself transform the treatment of corporate distress. The development of a genuine market for restructuring services with sufficient capital, expertise, and creditor participation remains a work in progress.

The Corporate-Governance Dimension

Corporate restructuring cannot be understood in isolation from corporate governance. The quality of a company's governance shapes both the likelihood that it will fall into distress and the manner in which distress, once it arises, is managed. A framework for reviving distressed firms that ignores the governance failures which so often precipitate distress addresses the symptom while neglecting the cause.

The Governance Framework for Listed Companies

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The governance of listed companies in Pakistan is regulated principally through the Listed Companies (Code of Corporate Governance) Regulations 2017, issued by the SECP to replace the earlier 2012 Code. The 2017 Regulations clarified and enhanced the roles and responsibilities of directors, broadened the responsibilities of the chief executive, promoted gender diversity through provisions on female directorship, strengthened disclosure requirements in the interest of transparency and consistency, and reinforced the effectiveness of board committees mandating, for instance, that the chairs of the audit and of the human-resources-and-remuneration committees be independent directors. These reforms aim at the accountability and transparency deficits that frequently underlie corporate distress.

The connection to restructuring is direct. Robust governance independent boards, effective audit committees, meaningful disclosure improves the early detection of financial difficulty, constrains the mismanagement and related-party abuse that can drive a company toward insolvency, and increases the credibility of the information on which any rehabilitation must be based. Conversely, weak governance not only makes distress more likely but complicates its resolution, because creditors and courts cannot rely on the company's own accounts and disclosures. A governance framework and a restructuring framework are, in this sense, two halves of a single system for managing the corporate life cycle.

Governance Gaps and the Unlisted Sector

The governance framework is strongest where it is least needed and weakest where the

risks are greatest. Listed companies, subject to the Code of Corporate Governance and the scrutiny of the capital markets, operate under relatively demanding standards. The vast population of unlisted and private companies which constitute the overwhelming majority of registered entities operates under a lighter regime, even though such firms are often more opaque, more concentrated in ownership, and more prone to the governance failures that precipitate distress. The recognition of this gap has driven recent reform commitments, including undertakings to modernise the corporate-governance and compliance regime for unlisted firms. Closing the governance gap in the unlisted sector is a precondition for a restructuring regime that reaches the firms most likely to need it.

The Reform Trajectory and International Influence

Pakistan's restructuring reforms have not unfolded in isolation. They have been shaped by domestic economic pressures chronic corporate distress, a heavy burden of non-performing loans, and the recurrent need to improve the business environment and by the country's sustained engagement with the international financial institutions, whose programmes have made the modernisation of the insolvency and governance framework a condition of support.

The Role of the IMF and World Bank

The International Monetary Fund and the World Bank have exerted significant influence on the direction of reform. Through its lending arrangements, the IMF has embedded structural benchmarks touching on governance, the corporate sector, and the business environment, and its reviews have pressed for continued modernisation. Among the commitments associated with the programme has been the submission of amendments to the Companies Act [2017](#) to modernise corporate governance and compliance for unlisted firms an undertaking that directly addresses the governance gap identified above. The World Bank, for its part, has contributed technical expertise on insolvency and debt enforcement, participating in the SECP's stakeholder consultations and offering recommendations for aligning Pakistan's framework with international standards (Bhowmick, [2025](#)).

This external engagement has had a dual effect. It has supplied momentum, technical knowledge, and a degree of political cover for reforms that might otherwise stall against domestic resistance. But it has also meant that reform has been driven substantially by the conditionality of external programmes rather than by purely domestic initiative, which raises questions about ownership and durability: reforms adopted to satisfy a benchmark may be implemented formally without being embraced substantively. The SECP's recognition as a reforms champion within the national regulatory-reform initiative suggests an effort to internalise the reform agenda, but the tension between externally driven and domestically owned reform remains a feature of the landscape.

Continuing Legislative Reform

The framework remains under active revision. The SECP has continued to work on revisions to the corporate-rehabilitation regime, reflected in draft amendments and in its

ongoing consultations on insolvency and debt enforcement, and it has pursued complementary reforms such as the development of out-of-court mechanisms and alternative dispute resolution for corporate disputes, including engagement on the establishment of a dedicated ADR centre. These initiatives reflect an understanding that an effective restructuring regime depends not only on formal court-supervised procedures but on efficient out-of-court workouts and dispute-resolution mechanisms that can resolve distress faster and at lower cost. The direction of travel is toward a more complete ecosystem in which formal rehabilitation, market-based restructuring through CRCs, and out-of-court settlement operate as complementary options.

Analysis: Persistent Gaps

Pakistan has, over the past decade, assembled the essential statutory components of a rescue-oriented restructuring regime. The Corporate Restructuring Companies Act, the Companies Act, and the Corporate Rehabilitation Act together supply the vehicle, the foundation, and the procedure; the SECP supplies the regulatory and convening capacity; and the governance framework supplies, at least for listed companies, the accountability infrastructure. Measured against the liquidation-centred regime it replaced, this is a substantial achievement. Yet the effectiveness of the framework is constrained by several persistent gaps that reform has not yet closed.

The first is the gap between enactment and enforcement. A rescue procedure is only as effective as the institutions that administer it. The Corporate Rehabilitation Act depends on a supply of qualified insolvency experts and on courts with the capacity and orientation to supervise rehabilitations efficiently; where either is lacking, the procedure risks becoming slow, costly, and uncertain the very conditions that deter its use. The SECP's own consultations, convened precisely to identify necessary improvements in the insolvency regime and to increase the efficiency of debt enforcement, acknowledge that the operational machinery has not yet matched the ambition of the legislation.

The second is the shallowness of the restructuring market. A handful of licensed corporate restructuring companies cannot, by themselves, transform the treatment of corporate distress across an economy of tens of thousands of registered firms and a substantial stock of non-performing loans. The market requires greater depth more capital, more expertise, and above all the alignment of creditors, particularly banks, behind the rescue objective. Without creditor buy-in, restructuring companies cannot acquire and rehabilitate distressed assets at scale, and the connection between corporate rescue and the resolution of non-performing loans remains largely aspirational.

The third is the governance gap, especially in the unlisted sector. Because distress so often originates in governance failure, a restructuring regime that leaves the majority of companies under a light governance regime addresses the consequences of poor governance while leaving its causes largely untouched. The commitment to modernise governance and compliance for unlisted firms is a recognition of this gap, but commitment is not yet implementation.

The fourth is the question of balance. An effective restructuring regime must protect the interests of creditors whose willingness to lend depends on the reliability of

enforcement while giving viable debtors a genuine opportunity to recover. A regime tilted too far toward debtors becomes a shelter for the unviable and a drag on credit; one tilted too far toward creditors reverts to the liquidation paradigm the reforms sought to escape. Calibrating this balance, and doing so credibly enough that both creditors and debtors trust the process, is the central design challenge that continued reform must meet.

Recommendations

The analysis supports a set of recommendations directed at consolidating an efficient and balanced restructuring regime.

First, priority should be given to the operational capacity that turns legislation into practice: expanding and professionalising the panel of insolvency experts, building the specialised judicial capacity needed to supervise rehabilitations promptly, and setting and monitoring performance standards for the speed and cost of proceedings. A rescue procedure that cannot be completed quickly and predictably will not be used.

Second, the market for restructuring should be deepened. This means encouraging the entry and capitalisation of additional corporate restructuring companies, and more fundamentally aligning the incentives of banks and development finance institutions behind the transfer and rehabilitation of distressed assets, so that the link between corporate rescue and the resolution of non-performing loans becomes operational rather than notional.

Third, the governance gap in the unlisted sector should be closed by carrying through the commitment to modernise governance and compliance for unlisted firms, calibrated proportionately so that improved accountability does not impose disproportionate burdens on smaller enterprises. Better governance is the cheapest form of distress prevention.

Fourth, out-of-court and hybrid mechanisms should be strengthened, including the development of alternative dispute resolution and of frameworks for pre-packaged and consensual restructurings that resolve distress before formal proceedings become necessary. The most efficient rescue is often the one that never reaches court.

Fifth, reform should be domestically owned rather than merely externally driven. The technical support and momentum supplied by the international financial institutions are valuable, but durable reform requires that the rescue orientation be embraced by domestic courts, creditors, regulators, and firms as their own objective and not merely as the price of external assistance.

Conclusion

The reform of Pakistan's corporate-restructuring regime over the past decade represents a deliberate and substantial shift from a paradigm of liquidation to one of rescue. Through the Corporate Restructuring Companies Act [2016](#), the Companies Act [2017](#), and the Corporate Rehabilitation Act [2018](#), Pakistan has assembled the statutory architecture of a modern rescue culture, supervised by an increasingly active SECP and connected, through the treatment of non-performing assets, to the broader health of the financial system. The corporate-governance reforms of the same period, though uneven in their reach, supply the accountability infrastructure on which effective restructuring depends.

The achievement is real, but it is incomplete. The effectiveness of a restructuring regime is determined less by the elegance of its statutes than by the capacity of the institutions that administer them, the depth of the market that uses them, the quality of the governance that surrounds them, and the balance they strike between creditor and debtor. On each of these dimensions, Pakistan's regime remains a work in progress: enforcement lags enactment, the restructuring market is shallow, the governance framework leaves the unlisted majority lightly regulated, and the calibration of creditor and debtor interests is not yet settled. The continuing programme of reform, driven by both domestic need and international engagement, is directed at precisely these deficiencies.

The trajectory, on balance, is toward a more complete and capable regime. Whether Pakistan succeeds in advancing corporate restructuring will depend on its ability to move beyond the enactment of sound legislation to the harder work of building institutional capacity, deepening the market for restructuring, closing the governance gap, and cultivating a genuine rescue culture that creditors, debtors, courts, and regulators share. The statutory foundation is in place; the task ahead is to make it work..

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