

Q. Describe the relationship if any, between separate legal personality and limited liability of corporate form of business.

Introduction:-

In corporate law, separate legal personality and limited liability are fundamental principles essential for business stability and investor protection. In Pakistan, these principles are applied to encourage investment and support corporate growth.

Separate Legal Personality:-

This principle asserts that a ^{sep} corporation is an independent legal entity distinct from its shareholders, founders, or directors. The concept was firmly established in *Salomon v. Salomon & Co. Ltd* (1897) and

is foundational in Pakistan's corporate law. A notable example is Engro Corporation, which, along with its subsidiaries like Engro Fertilizers and Engro Foods, operates as separate legal entities. This allows each subsidiary to own assets, take on liabilities, and enter contracts independently, insulating the parent company and other subsidiaries from individual risks.

Limited Liability:-

This principle limits the liability of shareholders to the value of their investment in the company. For instance, if Habib Bank Limited (HBL) incurs losses, shareholders only risk the value of their shares, not their personal assets. Limited liability thus encourages people to invest in businesses without fearing personal financial ruin in case of corporate failure.

Relationship Between Separate Legal Personality & Limited Liability:-

These principles work hand in hand to create a secure investment environment. The concept of separate legal personality ensures that the corporation is accountable as its own legal entity, while limited liability protects shareholders from direct liability beyond their investments. Together, they establish a risk mitigated business environment, fostering confidence and promoting investment in the corporate sector.

Exceptions (Piercing The Corporate Veil):-

In rare cases, courts may disregard these protections

and hold shareholders personally liable if there is evidence of misuse of corporate form, such as fraud or evasion of legal obligations. For example, Bolton Creditors Ltd. faced scrutiny under this principle, illustrating that these protections are not absolute and can be overridden to prevent misuse.

Conclusion:-

In Pakistan, the principle of separate legal personality & limited liability are essential for corporate stability, providing companies in Pakistan with a solid legal foundation to operate independently while protecting investor interests. This structure encourages economic activity and growth by enabling people to invest with reduced personal risk.