



FACULTY OF JURIDICAL SCIENCES

Course : B.A.LL.B./BBALL.B IInd Semester

SUBJECT: COMPANY LAW
SUBJECT CODE: BAL 406/BBL 406

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FACULTY OF JURIDICAL SCIENCES



LECTURE-13

1. Transfer of Shares

shares must be transferable. Private companies usually restrict members' rights to transfer shares.

(a) Transfer of Unlisted Shares-

transferor signs stock transfer form

- form is given to transferee with share certificate.
- if only part of shareholding is being

transferred, form and certificate are sent to the company instead, for certification.

- transferee sends form and certificate to company, which enters him on register of members. New share certificate is issued after two months.

(b) Transfer of Listed Shares –

- can be done as for unlisted shares.
- companies that support CREST can transfer listed shares electronically
- records are computerised and no share certificate is issued.

(c) Transmission of Shares –

Transmission is the automatic transfer of shares by operation of law. It takes place in a number of circumstances.

(i) Death of Shareholder:

Shares of deceased shareholder transmit to

his executor to deal with as directed by the will or the rules of intestacy.

(ii) **Insanity of Shareholder:** If shareholder becomes a patient under the Mental Health Acts and a public guardian is appointed, the shares transmit to the public guardian.

(iii) **Bankruptcy of Shareholder:**

Shares held by a bankrupt transmit to his trustee in bankruptcy.

Holder of shares through transmission has the same rights and benefits as a member even if not registered as a member - but he cannot vote. He can choose to be registered and can then vote.

2. Capital Maintenance:

Members are entitled to a dividend out of profits. A company cannot return capital to the

members. This provision operates to protect creditors.

CA sets out some legal methods by which the capital of a company can be returned to the members.

(a) Reduction of Capital:

A company can reduce its capital if this is authorised by the articles and the reduction is confirmed by the court. It also requires alteration of the share capital as stated in the memorandum - this needs a special resolution.

The court will only confirm the reduction if satisfied that the company's creditors have been paid or have consented to the reduction.

(b) Redeemable Shares:

A company can issue redeemable shares if

power to do so is given by the articles. The shares give a temporary membership of the company - the nominal value (and sometimes a premium) is paid to the shareholder at the end of the period.

When shares are redeemed they must be cancelled by the company. The company must make up its capital by issuing new shares or transferring funds from the profit and loss account to the capital redemption reserve account.

Any premium payable on redemption must be paid out of profits.

Private companies can pay for redemption completely out of capital - this needs a special resolution and a declaration from the directors that the assets will exceed liabilities after the payment is made.

(c) Company Purchasing its own Shares:
Generally this is prohibited by s.143(1), but

s.162 allows a company to buy its own shares in the circumstances provided by the Act and if authority is given in the company's articles.

(i) Market Purchase:

Must be authorised by ordinary resolution, which must state maximum number of shares to be purchased and minimum and maximum price to be paid. The authority cannot last more than 18 months.

(ii) Off-Market Purchase:

This requires a special resolution approving the specific purchase contract. If the company is a public company, the authority to buy must expire within 18 months.

When a company has bought its own shares it must cancel them and compensate for lost capital by a new share issue or a transfer of profits to the capital redemption

reserve.

MCQs

1. shares must be transferable. Private companies usually restrict members' rights to transfer shares.

- i. True
- ii. False
- iii. Can not say
- iv. None of the above

2. A company can not reduce its capital if this is authorised by the articles and the reduction is confirmed by the court. It also requires alteration of the share capital as stated in the memorandum - this needs a special resolution.

- i. True
- ii. False
- iii. Can not say
- iv. None of the above
- v.

3. Private companies can pay for redemption completely out of capital - this needs a special

resolution and a declaration from the directors that the assets will exceed liabilities after the payment is made.

- i. True
- ii. False
- iii. Can not say
- iv. None of the above

4. Transmission is the automatic transfer of shares by operation of law.

- i. True
- ii. False
- iii. Can not say
- iv. None of the above

5. companies that support CREST can transfer listed shares electronically records are computerised and no share certificate is issued.

- i. True
- ii. False
- iii. Can not say
- iv. None of the above

