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ALLOTMENT OF SHARES

SECTION 39, (ALLOTMENT OF SHARES)

Section 39 of the Act prohibits allotment of securities where the minimum amount as stated in the prospectus has not been subscribed. The section further provides that for refund of amount paid for securities and not allotted, within a given time frame.

- It provides that all of the minimum amount must be received within a period of thirty days from the date of issue of the prospectus, or such other period as may be specified by the Securities and Exchange Board.
- If such minimum subscription remains unsubscribed or unpaid it shall be returned within a period of fifteen days from the closure of the issue.

- If any such money is not so repaid within such period, the directors of the company who are officers in default shall jointly and severally be liable to repay that money with interest at the rate of fifteen percent per annum. The application money to be refunded shall be credited only to the bank account from which the subscription was remitted.

The section provides that the minimum amount of every security shall not be less than five per cent of the nominal amount of the security or such other percentage or amount, as may be specified by the Securities and Exchange Board by making regulations in this behalf.

PROCEDURES OF ALLOTMENT OF SHARES

- A private company can start business as soon as it gets the certificate of incorporation. It is prohibited by law to issue any prospectus, inviting the general public to subscribe towards its share capital. The shares are taken up privately by the promoters and their relatives and friends. But in case of public company, a proper procedure has been laid down in the Companies Act for the issue and allotment of shares. The following are the main provisions of the Companies Act relating to the issue and allotment of shares.

PROCEDURES OF ALLOTMENT OF SHARES

- When the company receives from bankers all the share applications, a share application list is prepared. You should remember that only the names of such applicants should be recorded who have paid the application money because an application without application money is void.
- The directors will see that all the legal rules regarding allotment have been complied with, then they will proceed with the allotment of shares.
- If the issue has been just,fully subscribed, then there is no problem in allotment, the directors can allot to each applicant the number of shares asked for.
- But the real difficulty arises in case of over-subscription. An issue is said to be over subscribed if the number of shares applied for is greater than the number of shares available for allotment.

PROCEDURES OF ALLOTMENT OF SHARES

- In case of over-subscription, the applicants will have to be allotted less number of shares than applied for, it is known as partial allotment.
- A scheme of basis of allotment is framed in consultation with the stock exchange where the shares are to be listed & Its guidelines the Government has emphasised that the scheme of allotment should be framed in such a manner that the interests of genuine small investor are promoted and the widest dispersal of the shareholding takes place.
- Inorder to ensure that no one corners a major portion of the shares available, the multiple application from the same person have been prohibited.

PROCEDURES OF ALLOTMENT OF SHARES

- In case of over-subscription, the shares are allotted either by draw of lots (lottery) or on pro-rata basis i.e. by alloting shares to each applicant in the proportion to the ' number of shares applied for. In order to ensure that an applicant may not refuse to . accept a smaller number than applied for, , the application form usually contain a clause saying “I/We agree to accept such shares or any smaller number that may be allotted to me/us.“

- According to the latest guidelines issued by the Controller of Capital Issues, the case of equity shares, the companies are allowed, at their option, to retain over-subscribed equity to the extent of 15 per cent of the amount for which consent of the CCI has been sought.

PROCEDURES OF ALLOTMENT OF SHARES

- You should remember that when lesser number of shares are allotted to an applicant, the excess application on money is not refunded to him but it is transferred to his allotment amount adjusted against the allotment money due from him.
- In case of under-subscription, the Board of directors has only to ensure that the minimum subscription has been received, then they can proceed with the allotment work.
- When the Board of directors pass a resolution confirming the allotment and, if for some reason, no shares are allotted to an applicant, then a letter of regret is sent to him alongwith a crossed cheque for the refund of the shares application money.

PROVISIONS OF ALLOTMENT OF SHARES

1. A public company must file a prospectus or statement in lieu of prospectus, inviting offers from the public for the purchase of shares in the company.
2. After studying the prospectus, the public applies for shares of the company in the printed prescribed forms. The company can ask for the issue price of the share to be paid in full along with the application or it can be payable in installments as share application money, share allotment money, share first call, share second call and so on. The amount payable as application money must be at least 5 percent of the nominal amount of the share.

PROVISIONS OF ALLOTMENT OF SHARES

3. No allotment of shares can be made unless the 'Minimum Subscription' as given in the prospectus had been subscribed or applied for. Minimum Subscription is the minimum amount which, in the estimate of the directors, is required to run the business. It has to be stated in the prospectus.

4. The amount of share application money must be deposited in a bank. It can be operated by the company only after getting the certificate of commencement.

5. . If the minimum subscription amount of 90% of the issue was not achieved by the company within 60 days from the date of closure of the issue, the company has to refund the entire subscription amount immediately. For any delay beyond 78 days, the company has to pay an interest of 6% per annum.

PROVISIONS OF ALLOTMENT OF SHARES

After allotment, the directors can call upon the shareholders to pay the full amount due on shares in one or more installments as mentioned in the prospectus. The articles of a company usually contain provisions regarding calls. If there is no such provision in the Articles, the following provisions shall apply:

1. No call shall be for more than 25% of the nominal value of each share.
2. Interval between any two calls should not be less than one month.
3. At least 14 days' notice must be given to each member for a call specifying the amount, date and place of payment.
4. Call should be made on a uniform basis on the entire body of shareholders falling under the same class.

THANK YOU