

# Allotment of Shares

## Legal rules of allotment:

### 1. Allotment must be made by proper authority:

Proper authority empowered to make allotment is the board of directors. Allotment must be made by the decision of the board usually expressed in the form of resolution passed at their meetings. Anyhow allotment authority through the Articles of association can be transferred. If allotment letter is signed by unauthorized person, this allotment is invalid in the eyes of law.

### 2. Application for allotment:

To put an application for the purchase of shares is compulsory requirement for public limited companies. Application is made on proper application form which is always available in the prospectus of the company. All declarations made by the applicant shall be binding on him.

### 3. Allotment must be communicated:

The board of directors may accept and reject an application for shares. If it is accepted the directors must communicate the acceptance through acceptance letter.

### 4. Allotment must be within reasonable time:

The definition of reasonable time varies from company to company but the time for allotment or the acceptance of application must be appropriate:

For example Mr. Hashim applied for shares in the company in December 2018 and received acceptance in November 2019. Mr. Hashim is entitled to refuse the purchase of shares because acceptance is too late.

Note: if company has reasonable proof that it had made acceptance in reasonable time but acceptance is lost in transit or delayed in postal transit the applicant would be bound by the contract to purchase shares.

## **5. Minimum subscription:**

Allotment of shares shall not be made unless minimum subscription has been obtained. Minimum subscription means the amount, if any, fixed by the memorandum or articles as minimum subscription on which directors may proceed to allotment. If no amount is fixed the whole amount of share capital shall be minimum subscription:

**For example** total authorized share capital of company is 10 million. And memorandum or articles defines that company issue shares each time for not less than Rs. 500,000. Now if the company later on advertises an issue for Rs. 400,000 it is an invalid issue. Because minimum subscription is defined for Rs. 500,000

**Note:** there is also limit on minimum offer made by the applicant. For example company defined that each applicant shall minimum applies for shares of Rs. 100,000. Now if Mr. Haider applies for shares of Rs. 60,000 his applicants shall not be entertained.

## **6. Repayment of money:**

Where a company issues an invitation to public to subscribe for shares. It shall refund the amount of oversubscribed applications or the amount of applications not accepted by the company. A company cannot issue shares before the refund of the application money and if it does, the directors of the company shall be liable for penalty.

## **7. Securities and Exchange Commission:**

When a company made public offer for issuance of shares, it must approve this issue from Securities and Exchange Commission of Pakistan, if Securities and Exchange Commission of Pakistan does not grant permission at least 21 days before the closing of subscription list date. A company cannot issue shares and liable to pay all application money back if received any, if the company does not pay back all application amount back, the directors of company can be sued and liable for compensation.

## **8. Scheduled Bank:**

All money received from applicants for shares shall be deposited in a separate bank account in a scheduled bank.

## **9. Return of allotment:**

When a company makes any allotment of its shares, the company shall within 45 days:

- A. File with the registrar a return of the allotment, stating the number and nominal amount of shares, particulars of each allottee, and amount paid on each share.
- B. If shares are allotted for cash, submit a report from the auditor of the company stating the amount of consideration has been received in full and shares has been issued to each allottee.
- C. If shares are allotted for otherwise than in cash, submit a copy of the document showing the transfer of non-cash asset, copy of contract, and copy of the valuation report in respect of which that allotment was made.
- D. In case of bonus shares, a return stating the number and nominal amount of such shares allotted, copy of the resolution authorizing such issue and particulars of allottee.
- E. In case shares are issued at discount, a copy of the resolution authorizing such issue. Where discount rate exceeds 10 percent a copy of the order of commission allowing the issue at higher discount rate
- F. If the shares are taken by the subscribers of memorandum on the formation of company there is no need to file the return of allotment with the registrar.

## **Certificate of share:**

A share certificate is a document issued under the common seal of the company and states

1. Name and address of the holder
2. The number of shares held by him
3. Their distinctive members
4. The amount paid up there on.

Thus a share certificate is a document of **title of the shares** held in the company.

## **Issue of certificate:**

Every company is bound to issue certificates of shares or other securities within 30 days after the allotment before 2017 this time limit was 90 days. It shall deliver the certificate to the person at his registered address. Any violation shall be an offence liable to penalty.

## **Numbering of shares:**

Every share in a company having a share capital shall be distinguished by its distinctive numbers.

For example if total shares are 100,000 out of which 30,000 shares are preferred shares and other 70,000 are common shares company shall mention all numbers of all types of shares and the portion of type and number of shares being awarded to the person entitled to certificate.

## **Nature of shares:**

The shares or other securities of any member in a company shall be moveable property transferable in the manner provided by the articles of association.

## **Evidence of title:**

A certificate if issued in physical form under common seal and recorded in central depository system shall be evidence of the title of the person.

## **Duplicate share certificate:**

The rules for duplicate shares certificate are as follows.

1. The duplicate certificate shall be issued within 30 days after the application if the original
  - a) Is lost or destroyed
  - b) Defaced or torn and surrender to the company
2. The company after making inquiry shall issue the duplicate certificate. The company may charge fee and expenses incurred in such inquiry.
3. If a company is unable to issue duplicate certificate, it shall notify the reasons within 20 days to the applicant.

## **Transfer of shares:**

The following are rules for transfer of shares.

### **Application for transfer of shares:**

An application for the registration of transfer of shares or debentures may be made either by the transferor or transferee. The company shall within 15 days complete the process and

- a) Deliver the certificate of transfer to the transferee at his registered address
- b) Enter the name of the transferee in its registered of members

Every company shall maintain a register of transfers of shares and other securities at its registered office which shall be open to inspection by the members, auditors and other officials.

### **Refusal of transfer:**

The board is bound to transfer the shares on application and cannot refuse transfer, but it can refuse transfer when transfer deed is invalid and not according the laws of company.

If a company refuses to register a transfer of any shares and other securities, it shall within 15 days send to the transferee a notice of the refusal indicating reasons for refusal.

### **Transfer to successor:**

The shares and other securities of deceased member shall be transferred in favor of the successors and their names shall be entered in the register of members.

### **Transfer to nominee:**

1. Any person may nominate a person to facilitate the transfer of shares to the legal heirs in the event of his death.
2. The person nominated, after the death of the member, shall be deemed as a member of a company till the shares are transferred to the legal heirs.
3. If the deceased was the director of the company, not being a listed company [ because listed company directors are elected] the nominee shall also act as the director of the company.

4. The person to be nominated shall be a relative of the member namely, spouse, father, mother, brother, sister, and son or daughter.

### **Appeal against refusal to transfer:**

If company refuses the transfer of shares or other securities as discussed above due to the reason that company considers that transfer deed is not valid. Now the applicant who gave the application for the transfer of shares has the right to appeal against the refusal to transfer of shares within 60 days after the refusal. In case applicant proves that the refusal was not valid and win the case now company is bound to give the effect of this decision within 15 days after the decision of appeal.