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A STUDY ON TRANSFERABILITY OF SHARES IN A COMPANY

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ABSTRACT

Companies often issue shares to raise capital for operational and strategic reasons. Shares of public companies trade on regulated stock exchanges, where investors can place buy and sell most investment portfolios. Investors can own shares directly or indirectly through mutual funds. When contemplating investing in an IPO, you may want to know the likelihood of receiving an allocation of shares. Alternatively, perhaps you previously attempted to participate in an IPO and did not receive an allocation of shares and want to know why. While it is impossible to know in advance whether you will receive an allocation of shares, understanding the factors that determine how shares are allocated may assist with setting proper expectations and an explanation as to why you were not allocated shares. In business, allotment describes a systematic distribution of resources across different entities and over different time periods. In finance, the term typically relates to the distribution of shares during a public share issuance. Two or more financial institutions usually underwrite a public offering. Each underwriter receives a specific number of shares to sell. The distribution of shares distributes the total equity among all participating parties. Company directors may issue new shares to fund an acquisition or takeover of another business. In the case of a takeover, new shares can be allotted to existing shareholders of the acquired company, efficiently exchanging their shares for equity in the company.

KEY WORD: Share, company, entrepreneurs, share holders, stock exchange.

INTRODUCTION

A significant portion of household net worth is linked to the market value of stocks and mutual funds. This creates a wealth effect. During bull markets, people feel wealthier and businesses feel more confident. They spend and invest, which benefits the overall economy in terms of increased employment, sales and corporate profits. Conversely, during falling markets, individuals feel less wealthy and slow down their spending. This affects business confidence and individual spending, which can drive down stock prices. Capital appreciation and dividend income are two reasons why shares are important to financial planning. A typical balanced investment portfolio contains stocks, bonds and cash. Conservative investors may favour bonds over stocks, while aggressive investors might favour stocks. Shares are often a source of regular income because some companies distribute quarterly dividends from their after-tax net income. In tax-sheltered investment portfolios, such as 401k plans, the capital gains from stock trades and dividend distributions accumulate tax-free until they are withdrawn. Shareholders have the right to participate and vote in annual general meetings. Small individual shareholders holding a few hundred shares may not be able to influence companies. However, when these small investors join with mutual funds and other institutional shareholders, they can influence corporate boards and senior management to change strategic direction. Investors can influence corporate strategy by simply abandoning the shares of under-performing companies, thus driving share prices down and forcing the board to make the necessary changes. Healthy companies mean a healthy company, which benefits everybody. Net capital gains -- long-term capital gains minus short- and long-term capital losses -- are taxed at a lower rate than regular income. Shares held for more than a year are long-term, while shares held for less than a year are short-term. The holding period starts from the day after a share purchase to the day the share is sold. The tax rate on most long-term capital gains tax rate is 15 percent or less, as of this publication.Share issue is the process by which companies pass on new shares to shareholders, who may themselves be new or existing shareholders. Companies can issue shares to both individuals or corporate bodies, and in another article we look in more detail at the step by step process to issue shares. Alongside the issue of shares, you may see the term ‘share allotment’ used. While there can be subtle differences between issuing shares and allotting them, for most companies and in most circumstances they amount to exactly the same process. So we’ll use both terms to mean the same thing here.

Armah Arjun Madan (2003), in his article 'Investments in IPOs in the Indian Capital Market', published in Bimaquest conclude that in the long run (five-year after listing), there is a drastic fall in the return on IPOs returns; returns are found to be negative from the second to the fifth year of listing.

Anand Adhikari (2010), "New Listings – Pied Pipers of Primary Market" published in Business Today point out that companies with unique business models got listed in the year 2009-10 and made their investors rich.

Atul Mehra (2010) "IPO Boom", Business Today, point out that promoters are in hurry to IPO because they do not want to be left out.

Aggarwal, R., P. Conroe (2000), "Price Discovery in Initial Public Offerings and the Role of the Lead Underwriter", Journal of Finance, conclude that the price discovery process of initial public offerings (IPOs) using a unique dataset. The first quote entered by the lead underwriter in the five-minute pre-opening window explains a large proportion of initial returns even for hot IPOs. Significant learning and price discovery continues to take place during these five minutes with hundreds of quotes being entered. The lead underwriter observes the quoting behaviour of other market makers, particularly the wholesalers, and accordingly revises his own quotes. There is a strong positive relationship between initial returns and the time of day when trading starts in an IPO. Bhupal Sing (2009), in his article "Changing Contours of Capital flows to India, published in Economic and Political Weekly, pointed out that the most striking feature of change in the cross-border capital flows to emerging market economies during the 1990s is the emergence of portfolio equity inflows. It was further stated that portfolio investment in India started in 1993 by way of the equity and debt investment by FIIs in the Indian Stock Markets and Global offerings of ADRs and GDRs by the Indian Corporate. The FIIs turnover accounts for a significant share of the cash segment turnover of stocks. The stocks have potential for large volatility in the asset prices.

AIM

- To examine the transferability of shares in a company in comparison with the present economic condition.
- To know more about the transfer and transmission of shares

MATERIAL AND METHODS

This study is collected from various national and international journals, books and publications from various websites which gives importance of transferability of shares in a company.

OBSERVATION

To study the importance of transferability of shares

An issued share is a term of law and finance for the number of shares of a corporation which have been allocated (allotted) and is subsequently held by shareholders. The act of creating new issued shares is called insurance, allocation or allotment. The number of shares that can be issued is limited to the total authorised shares . Issued shares are those shares which the board of directors and/or shareholders have agreed to allocate. Issued shares are the sum of outstanding shares held by shareholders; and treasury shares are shares which had been issued but have been repurchased by the corporation, and which generally have no voting rights or rights to dividends. The issued shares of a corporation form the equity capital of the corporation, and some corporations are required by law to have a minimum value of equity capital, while others may not need any or just a nominal number. The value of the issued shares are determined at the time they are issued and the value does not change, in relation to the issuing corporation after that time.Shares are most commonly issued fully paid, in which case the liability of the shareholders is limited to the amount paid on the shares; but they may also be issued partly paid, with unlimited liability, subject to guarantee, or some other form. The income received from the ownership of shares is a dividend. The process of purchasing and selling shares often involves going through a stockbroker as a middle man. There are different types of shares such as Equity shares, Preference shares, Bonus shares Right shares, employees stock option plans and equity shares. The shareholder (usually called 'the transferor') provides the transferee with a duly completed and signed stock transfer form and the share certificate in respect of the shares to be transferred. The transferee has the transfer stamped by paying the relevant amount of stamp duty (see below) and then sends the stock transfer form and the share certificate to the company. It is not lawful for a company to register a transfer of shares unless a duly stamped proper instrument of transfer has been delivered to it, or the transfer is an exempt transfer within the Stock Transfer Act 1982. This applies notwithstanding anything in the company's articles.

The company decides whether to accept the transfer. This should be done by a resolution of the directors unless the secretary has previously been authorised by the board to accept transfers. The company must accept the transfer unless there is some provision in its articles which restricts transfers or gives the board a discretion to decline them. If a company refuses

to register a transfer it shall within two months after the date on which the transfer was lodged with it, send to the transferee notice of the refusal.

To know more about the transfer and transmission of shares

The capital of a company is divided into a number of undivided units of a preset amount called shares. The Supreme Court of India in CIT v. Standard Vacuum Oil Co, observed, that a share is an interest measured by a sum of money and made up of diverse rights conferred on it. It implies the existence of some person entitled to the rights, which are rights in action as distinct from rights in possession, and until the share is issued the person does not exist.Transferability is an important feature of a share in a company registered under the Companies Act, from which emanates another feature of a company- perpetual succession. It endows a company with perpetual and uninterrupted existence. Upon incorporation, a company acquires its own independent legal personality and legal entity in the company. Section 82 states that the share shall be a movable property and transferable in a manner provided by the articles of the company. It has, however, been consistently held by the courts that subject to restrictions imposed by the articles, a shareholder is free to transfer shares to a person of his own choice and that the articles cannot put a complete ban or unreasonable restriction on the transfer. While shares in a private company are not freely transferable and are subject to the restrictions imposed by the articles of the company, shares in a public company are freely transferable . There are different types of transfer such as transfer of share by gifts, in case of joint holdings and transfer in private companies.Transfer of shares is a transaction resulting in a change of share ownership. A shareholder, whether in public or private company, has a property in his share which he has a right to dispose of, subject only to any express restriction which may be found in the articles of the company.Transmission is the automatic process; when a shareholder dies, his shares immediately pass to the personal representatives or, if a member is declared bankrupt, their shares will vest in the trustee in bankruptcy.The Depositories Act, 1996 provides for an alternate mode of effecting transfer of shares. Investors have the choice of continuing with the existing share certificates and adopt the existing mode of effecting their transfer. Every depository is registered with the SEBI and receives a certificate of commencement of business on fulfilment of such conditions. Upon entry into the system, share certificates

belonging to the investor will be dematerialised and their names entered in the books of participants as beneficial owners. The investor's names in register of companies concerned will be replaced by the name of the depository as the registered owner of the securities. The investors will, however, continue to enjoy the economic benefits from the shares as well as voting rights on the shares concerned .

CONCLUSION

Shares are valued according to various principles in different markets, but a basic premise is that a share is worth the price at which a transaction would be likely to occur were the shares to be sold. The liquidity of markets is a major consideration as to whether a share is able to be sold at any given time. An actual sale transaction of shares between buyer and seller is usually considered to provide the best prima facie market indicator as to the "true value" of shares at that particular time. Shares are most commonly issued fully paid, in which case the liability of the shareholders is limited to the amount paid on the shares; but they may also be issued partly paid, with unlimited liability, subject to guarantee, or some other form. Shares" are shares in ownership, and we buy and sell shares on the stock market. The simplest one-person business has no need for shares because nobody's sharing anything. However, as soon as there's a second person involved, then sharing becomes a possibility. Corporations are normally owned by shareholders, and each shareholder has some number of shares. The number of shares that can be issued is limited to the total authorised shares. Issued shares are those shares which the board of directors and/or shareholders have agreed to allocate. Issued shares are the sum of outstanding shares held by shareholders; and treasury shares are shares which had been issued but have been repurchased by the corporation, and which generally have no voting rights or rights to dividends.The issued shares of a corporation form the equity capital of the corporation, and some corporations are required by law to have a minimum value of equity capital, while others may not need any or just a nominal number. The value of the issued shares are determined at the time they are issued and the value does not change, in relation to the issuing corporation after that time.Shares are most commonly issued fully paid, in which case the liability of the shareholders is limited to the amount paid on the shares; but they may also be issued partly paid, with unlimited liability, subject to guarantee, or some other form.

CONFLICT OF INTEREST

I have chosen the importance of the transferability of shares in a company because this is one of the trending and hot topic that is to be discussed and known to all the students

so that it would be useful for them if they have an idea getting into the field of company sector. Moreover what are the barriers students face while entering into the field of company sector are discussed so that it would be useful for them to choose their right path.

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