SECRETARIAL STANDARD-3 (SS-3) ON DIVIDEND

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INTRODUCTION

- **What is a Dividend?**
- - Return on investment for shareholders
- - Distinct from interest on borrowed capital
- - Distributed among members based on shareholding
- **Legal Definition:**
- - Defined under Companies Act, 2013
- - Includes both final and interim dividends
- Exemptions:
- - Not applicable to Section 8 companies, companies limited by guarantee, and companies under liquidation

SCOPE

- Applicable to:
- - All companies declaring and paying dividends on equity or preference shares
- - Both listed and unlisted companies

- Regulatory Compliance:
- - Must align with Companies Act, 2013
- - Complies with SEBI (LODR) Regulations for listed companies

KEY DEFINITIONS

- **Dividend**: Distribution of profits to shareholders from free reserves
- **Free Reserves :** means such reserve which , as per the latest audited balance sheet of a company are available for distribution as dividend .
- **Members:** the subscriber to the memorandum of the company who shall be deemed to have agreed to become member of the company, and on its registration, shall be entered as member in its register of members

- **Shareholder:** means a Member as defined above and, where the context requires or admits, includes a Preference Shareholder. Words and expressions used and not defined herein shall have the meaning respectively assigned to them under the Act or other applicable laws.
- **Preference Shareholder :** means a holder of such shares which carry a preferential right, in respect of payment of Dividend, of a fixed amount or an amount calculated at a fixed rate and in respect of capital, to repayment of capital.

ASCERTAINMENT OF AVAILABLE FUNDS

- -Dividend shall be paid out of the profits of the financial year for which such Dividend is sought to be declared and/or out of profits for any previous financial year(s) which remains undistributed after providing for depreciation in accordance with the provisions of the Act. Dividend may also be declared out of money provided by the Central Government or a State Government in pursuance of a guarantee given by such Government for this purpose.
- **-A company shall not declare Dividend on its equity shares in case of non-compliance of provisions relating to the acceptance of deposits under the Act, till such time the deposits accepted have been repaid with interest in accordance with the terms and conditions of the agreement entered with the depositors.**

DECLARATION OF DIVIDEND:

- Dividend shall be declared only on the recommendation of the Board, made at a meeting of the Board.
- Dividend shall be declared only at an Annual General Meeting.
- No Dividend shall be declared on equity shares for previous years in respect of which annual financial statements have already been adopted at the respective Annual General Meetings.

DIVIDEND TYPES & DECLARATION

- **Final Dividend:** Declared at the Annual General Meeting (AGM) based on the Board's recommendation. It is approved by the shareholders and reflects the company's financial performance over the financial year. The final dividend is paid only after the approval of shareholders at the AGM.
- **Interim Dividend:** Declared by the Board of Directors at any time before the end of the financial year. It is typically paid out when a company has generated significant profits and wishes to distribute them before the final dividend declaration. The Board must ensure sufficient profit availability before declaring an interim dividend.

- **Entitlement to Dividend:** The registered shareholders as per the record date or beneficial owners in depositories are entitled to receive dividends. The record date is determined and disclosed in advance to ensure clarity on eligibility.
- **Order of Payment:** Preference shareholders, including cumulative preference shareholders with arrears, are paid before equity shareholders. If preference dividends are not paid in a financial year, cumulative preference shareholders are entitled to receive the unpaid dividends in subsequent years before any equity dividend is distributed. Equity shareholders receive dividends only after the claims of preference shareholders have been satisfied.

TIMELINES FOR DIVIDEND PROCESSING

- **Deposit of Dividend Amount: Within 5 days** of declaration, the company must transfer the dividend amount to a separate bank account designated for dividend payments. This ensures that funds are available and protected for distribution to shareholders.
- **Payment of Dividend:** The dividend must be paid **within 30 days** from the date of declaration. This can be done via electronic transfers, cheques, or dividend warrants to ensure timely distribution. If the payment is not made within the stipulated time, the company may be subject to penalties as per the Companies Act.

- **Transfer to Unpaid Dividend Account:** If the dividend remains unpaid or unclaimed **for 30 days**, the amount must be transferred to the Unpaid Dividend Account within 7 days after the expiry of this period. This account is maintained by the company to hold unclaimed dividends, allowing shareholders to claim their entitled amounts later. The details of unclaimed dividends must be published on the company's website.
- **Transfer to IEPF:** If the dividend remains unpaid or unclaimed **for 7 years,** the amount, along with the corresponding shares, must be transferred to the Investor Education and Protection Fund (IEPF). This is a regulatory measure to protect investor interests and unclaimed funds. Shareholders can claim their dividends and shares from IEPF by following the prescribed procedures and submitting necessary documents. The company is also required to file a statement with the IEPF Authority detailing such transfers.

REVOCATION AND PRESERVATION

- **Revocation of Dividend:** Once declared, the dividend becomes a debt of the company and cannot be revoked. This provision protects shareholder rights by ensuring that declared dividends are honored. Even in the case of financial constraints, a declared dividend must be paid.
- **Record Preservation:** Paid dividend cheques, registers, and related documents must be preserved for **8 years**. This ensures proper record-keeping for audit, regulatory compliance, and shareholder reference. Companies must maintain proper documentation and make records available for verification by authorities if required.

DISCLOSURE REQUIREMENTS

- **Annual Report Disclosures:** Companies must disclose the total dividend per share, unpaid dividends over the past **7 years,** and upcoming transfers to the IEPF. These disclosures enhance transparency and allow shareholders to track their entitlements. Companies are also required to mention dividend policies in their board reports.
- **Unpaid Dividend Details:** Companies must maintain and publicly disclose information about unpaid dividends to facilitate claims by shareholders. This includes providing details on company websites and regulatory filings. Shareholders should be encouraged to check their entitlements and claim their dividends in a timely manner.

- **Investor Communication:** Companies must proactively communicate dividend payment schedules, eligibility criteria, and claim procedures through press releases, stock exchange notifications, and direct shareholder communication. This ensures that shareholders are well-informed about their dividend rights and claims.

ANNEXURE

- **Stock Exchange Intimation:** Listed companies must give prior notice to stock exchanges before declaring dividends. This ensures transparency and provides investors with relevant information. Companies must also disclose dividend payment timelines and methods.
- **Dividend Distribution Policy:** The top 500 listed companies (by market capitalization) must disclose their dividend distribution policy in the Annual Report. This policy outlines the factors influencing dividend payouts, such as profitability, growth prospects, cash flow requirements, and regulatory compliance.

ADDITIONAL COMPLIANCE FOR LISTED COMPANY

Stock Exchange Notifications

To maintain transparency, listed companies must notify the stock exchanges at different stages:

- **Board Meeting Notice:** At least **2 working days** before the meeting where the dividend will be recommended or declared (excluding the date of intimation and meeting).
- **Record Date Notice:** At least **7 working days** before the record date (excluding the intimation and record date).

- **Dividend Declaration Timeline:** The company must declare a dividend **at least 5 working days** before the record date (excluding the declaration date and record date).
- **Board Meeting Outcome:** The company must disclose the Board’s decision on dividend declaration to the stock exchanges **within 30 minutes** of the meeting's closure.
- **Payment Process & Methods**

-If the dividend amount **exceeds ₹1,500**, the company must **send the dividend cheque or warrant via speed post or registered post** to ensure it reaches the shareholder.

-The company must always **declare and disclose dividends on a per-share basis** for better clarity and transparency.

CONCLUSION

- Secretarial Standard-3 (SS-3) provides a structured, transparent, and compliant framework for dividend declaration and payment. By ensuring adherence to the Companies Act, SEBI regulations, and IEPF requirements, it protects shareholder rights, promotes fair corporate practices, and enhances investor confidence. Companies must comply with SS-3 to maintain good governance and legal compliance in their dividend distribution practices. Additionally, companies should foster shareholder engagement by streamlining dividend distribution processes, maintaining clear records, and providing accessible claim mechanisms for unpaid dividends. Regulatory authorities play a vital role in overseeing compliance and ensuring that companies act in the best interests of their shareholders.

Thank You

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