

SECRETARIAL STANDARD ON FORFEITURE OF SHARES (SS-9)

- Issued by the Institute of Company Secretaries of India (ICSI)

INTRODUCTION

- Forfeiture is withdrawal of shares due to non-payment of any call by the shareholder or for any other ground as may be provided in the Articles
- On forfeiture of shares the member loses the amount paid thereon and his interest in the ownership of the shares

SCOPE

- Principles for forfeiture of equity and preference shares.
- Applies in cases of non-payment.
- Ensures fairness and transparency.
- Provides guidance for listed and unlisted companies.

DEFINITIONS

- **Act**” means the Companies Act, 1956 (1 of 1956), or any statutory modification or re-enactment thereof.
- **Articles**” means the articles of association of a company.
- **Board**” means the Board of directors of a company.
- **Call**” means a demand made by the company on members for payment of an amount due on shares in respect of nominal value or premium or both.

AUTHORITY FOR FORFEITURE

- The Articles should contain a provision for forfeiture of shares.
- Forfeiture of shares requires approval of the Board in a duly convened meeting.

PROCEDURE FOR FORFEITURE

■ **Non-payment of Calls**

- A forfeiture of shares held by a member should be made under the authority of the Board, if a call on the shares, together with interest accrued thereon, in accordance with the terms of issue of the shares, remains unpaid after the day appointed for payment thereof

■ **Issuance of Notice**

- If a member fails to pay any call, on or before the day for payment thereof, the company should during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of the call remaining unpaid, together with interest which may have accrued.
- Notice should be served by the company on the defaulting member by registered post acknowledgment due.

■ **Final Forfeiture Process**

- If the amount payable specified in the notice was not paid within the stipulated date, any share in respect of which the notice has been given may at any time thereafter forfeited.

CONTENT OF NOTICE

- The notice should state the amount of the call due and the interest accrued thereon.
- The Notice should also specify a day not being earlier than the expiry of twenty-one days from the date of posting of the notice on or before which the payment required by the notice is to be made; and state that in the event of non-payment on or before the day so specified, the shares in respect of which the call was made including the amount already paid thereon will be forfeited.

REQUIREMENTS OF FORFEITURE

- The Board at a duly convened meeting should approve the forfeiture and authorize any director or manager or the secretary to make a declaration of such forfeiture.
- The date of approval by the Board is the date of forfeiture.
- Upon forfeiture, any director or manager or the secretary, authorized by the Board of the company shall make a declaration specifying the particulars of shares forfeited.
- The declaration shall be conclusive evidence of forfeiture as against all persons claiming to be entitled to the shares of the company which have been forfeited.
- The Board should issue individual notices to the defaulting members whose shares have been forfeited.
- Entries in the register of members should be made with regard to forfeited shares.
- Share certificates in relation to forfeited shares shall stand cancelled upon forfeiture.
- There should be a reference to the forfeiture of shares in the report of the directors to the shareholders.

ANNULMENT OF FORFEITURE

- Board may annul forfeiture before reissue.
- Shareholder must clear dues & interest.
- Name reinstated in Register of Members.
- New share certificates issued.
- Shareholder formally notified.

EFFECT OF FORFEITURE

- Shareholder ceases to be a member.
- Liability continues for unpaid dues.
- If wound up within a year, still liable as a contributory.

REISSUE OF FORFEITED SHARES

- Can be reissued as a sale, not allotment.
- Price must be \geq unpaid dues.
- Listed companies follow SEBI guidelines.
- Recorded as a share transfer.
- New certificates issued.

EFFECT OF REISSUE

- Transferee becomes new shareholder.
- Cannot challenge forfeiture.
- Title is secure despite irregularities.

CONCLUSION

- Ensures fairness and transparency.
- Maintains investor confidence.
- Prevents legal challenges.
- Compliance with SEBI and stock exchange regulations.



*Thank
You*

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