

Sebi guidelines for issue of bonus shares essay



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A Company may issue bonus shares without obtaining prior approval but only after a period of 12 months after a public/rights issue and after safeguarding the rights of fully convertible and partly convertible debentures falling due for conversion within 12 months from the date of bonus issue. A bonus issue should take into consideration the future earning potential of the company, to conserve liquid reserves and to utilise reserves for issuing shares to make paid-up capital correspond to the capital actually employed. A bonus issue is an important financial decision and it should be in conformity with the following guidelines prescribed by SEBI:

1. Bonus Issue from Free Reserves. The bonus issue is made out of free reserves built out of the genuine profits or share premium collected in cash only.
2. Reserves by Revaluation. Reserves created by revaluation of fixed assets cannot be used for bonus issue.
3. Residual Reserves. Certain reserves such as development rebate or investment allowance reserve is considered as free reserve for the calculation of residual reserve test.
4. Other Reserves. The voluntary reserves created by the company such as Depreciation Reserve, Assets Equalisation Reserve, Inflation Reserve, etc, may be eligible for issue of bonus shares but it is desirable that any such reserve may first be transferred to General Reserve before capitalisation. Reserves like Export Reserve and profits not transferred to any Reserve are free reserves eligible for Capitalization.

5. Contingent Liabilities. All contingent liabilities disclosed in Audited Accounts which have bearing on the net profits, shall be taken into account in the calculation of the residual reserves.
6. Residual Reserve Test. The residual reserves after the proposed capitalization shall be at least 40 per

cent of the increased paid up capital. 7. Rate of Return Test. 30 per cent of the average profits before tax of the company for the previous three years should yield a rate of dividend on the expanded capital base of the company at 10 per cent. 8. Capital Reserve. The capital reserve appearing in the Balance Sheet of the company as a result of revaluation of assets or without accrual of cash resources are neither capitalized nor taken into account in the computation of the residual reserves of 40 per for the purpose of bonus issues.

9. Bonus in lieu of Dividend. The declaration of bonus issue, in lieu of dividend, is not made. 10. Partly Paid Shares to be Made Fully Paid. The bonus issue is not made unless the partly-paid shares, if any existing, are made fully paid-up. 11. Interest and Statutory Dues Paid. The Company should not have defaulted in payment of interest or principal in respect of fixed deposits and interest on existing debentures or principal on redemption thereof. It also has sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity, bonus etc.

12. Bonus Decision Implementation. A company which announces its bonus issue after the approval of the Board of Directors must implement the proposal within a period of 6 months from the date of such approval and shall not have the option of changing the decision. In this connection, the company should, as per the listing agreement with Stock Exchange, give intimation to the Stock Exchange 48 hours before the day of the Board Meeting in which a bonus issue proposal is listed for consideration and

forward to the stock exchange necessary particulars of the bonus issue immediately after the Board Meeting.

13. Provision in Articles of Association. There should be provision in the Article of Association of the company for capitalization of reserves etc. and if not, the company shall pass a Resolution at its General Body Meeting making provisions in the Articles of Association for Capitalization. Increase in Authorized Capital. If the subscribed and paid up capital exceeds the authorized share capital after the bonus issue, a Resolution shall be passed by the company at its General Body Meeting for increasing the authorized capital. 14. Approval of Bonus Issue. The Company shall get a Resolution passed at its General Body Meeting for bonus issue and in the said Resolution the management's intention regarding the rate of dividend to be declared in the year immediately after the bonus issue should be indicated.

15. No Dilution of Debentures, Rights. No bonus issue shall be made which will dilute the value of rights of fully convertible and partly convertible debentures. 16. Certificate of Compliance. A company proposing to issue bonus shares shall certify that the terms and conditions for issue of bonus shares as laid down in the Guidelines of SEBI vide press release dated 13. 4. 1994 modifying the earlier guidelines issued by SEBI dated 11. 6. 1992 have been complied with which will be countersigned by the company's auditors or by a company secretary in practice. The said certificate shall be submitted to SEBI before issue is made and acknowledgement obtained from SEBI.