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Unit-II (prospectus)

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What Is a Prospectus?

A prospectus is a legal document that is required by the Securities & Exchange Commission (SEC) to accompany securities or investment offerings for sale. A prospectus contains key facts and information about the offering to help investors make an informed decision.

Companies must issue a prospectus prior to offering stock or bonds for sale to the public. A prospectus is used to help investors make a more informed investment decision.

DEFINITION-

under section 2 (70) company act, 2013- "prospectus" means any document described or issued as a prospectus and includes a red herring prospectus referred to in section 32 or shelf prospectus referred to in section 31 or any notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate;

Section 31-self prospectus

Section 32- red herring prospectus

RED – HERRING PROSPECTUS

- A prospectus that contains most of the information that will be presented in the final prospectus but often does not mention a price and/or the number of securities.
- A red herring prospectus is alternatively known as a preliminary prospectus.
- It can be distributed to potential investors after the registration statement for a securities offering has been filed with the securities commission.
- The public limited companies, which are yet to obtain the certificate of commencement of business, without filing of business, require the SLP (statement of lieu of prospectus).
- It must be filed when a private company becomes a public company.

SHELF PROSPECTUS

- A prospectus that describes a set of unissued, but registered securities.
- It is used insituations where securities are issued in consecutive stages over a period of time because the size of issue is too large (and funds to be raisedare enormous, making the filing of prospectus each time very expensive).
- Later on , an issue will only need to file the so called information memorandum with the relevent securities commission.

CONTENT

- The name, addresses and occupation of directors and managing directors.
- The number and classes of shares and debentures issued.
- The qualification share of directors and the interest of directors for the promotion of company.
- The prospectus contain the main objectives of the company, the name and addresses of the signatories of the memorandum of association and the number of shares held by them.

Types of Prospectuses

There are several different types of a prospectus that may be created for any number of offered products. Generally, they fall into one of these four categories:

- **Preliminary.** A prospectus for stocks and bonds is issued in different stages. The first stage is the preliminary prospectus, which contains the details of the business and proposed financial action.
- **Abridged.** An abridged prospectus is basically the summary of a prospectus. It contains all the important features of a prospectus in a condensed, reader-friendly version.
- **Shelf.** This refers to the ‘shelf-life’ of the information as its only relevant for one year or less. Generally, only finance-based companies are eligible for creating a shelf prospectus.
- **Deemed.** When a company agrees to give shares to an issuing house and then later sell to the public, the document disclosing the offer is deemed to be a prospectus.

POSSIBILITIES OF PROSPECTUS

1. when a company go to issue share or debenture on primary market.
2. Before company issue a documents to public which contain all the details about the particular share or debt and company-.
3. Also a way to identify the profitability and growthness of business.
4. It helps the public to take the decision s about the purchase of these share or debt on the basis of it .
4. Time period normally 1 week only.
5. After the receipt of certificate of incorporation , if the promoters of a public limited company wishes to issue shares to the public, he will issue a document called prospectus.
6. It is an invitation to the public to subscribe to the share capital of the company.

TO BE CONTINUED-----NEXT PPT