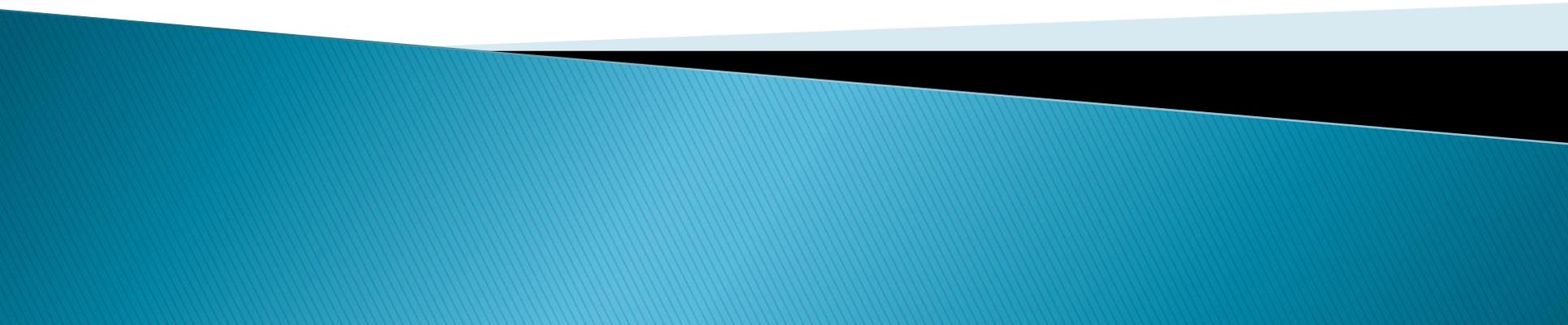


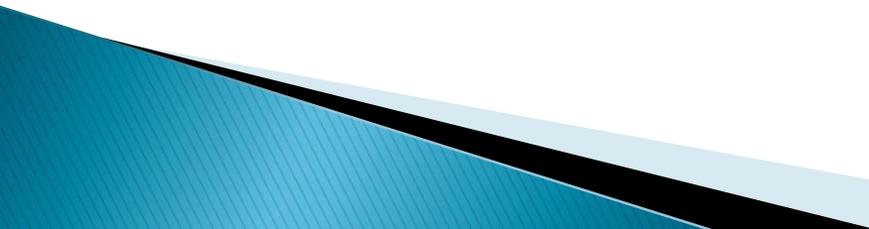
**SOS POLITICAL SCIENCE AND  
PUBLIC ADMINISTRATION**

**MBA HRD 201**

**SUBJECT NAME:FUNCTIONAL  
MANAGEMENT**

**TOPIC NAME: ARTICLES OF ASSOCIATION**



- ▶ Every company needs a set of rules and regulations to manage its internal affairs. There are two important business documents of a company, namely, Memorandum of Association (MOA) and Articles of Association (AOA). The AOA specifies the internal regulations of the company. In this post, we will look at the Articles of Association (AOA) in detail.
  - ▶ The AOA contains the bye-laws of the company. Therefore, the director and other members must perform their functions as regards the management of the company, its accounts, and audits in accordance with the AOA.
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- ▶ In corporate governance, a company's articles of association (AoA, called articles of incorporation in some jurisdictions) is a document which, along with the memorandum of association (in cases where the memorandum exists) form the company's constitution, defines the responsibilities of the directors, the kind of business to be undertaken, and the means by which the shareholders exert control over the board of directors.
  - ▶ It refers to that document of the company in which rules of internal management to achieve the objective laid down in the memorandum of association are stated.
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- ▶ Articles of association form a document that specifies the regulations for a company's operations and defines the company's purpose. The document lays out how tasks are to be accomplished within the organization, including the process for appointing directors and the handling of financial records.
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# CONTENTS OF ARTICLES OF ASSOCIATION

- ▶ It is important to pay extra attention to the Contents of the Articles of Association (AOA) at the initial phase since they are important for the ability of the Company to make profits and keep their shareholders satisfied. It is also important to make sure that they are as per the Company's interests because amending the Articles later require a two-thirds majority of the votes at the general meeting of shareholders.
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## **The following are the contents that a Company's Articles of Association (AOA) usually possesses:**

- ▶ Directors
  - ▶ General meetings
  - ▶ Accounting and auditing
  - ▶ Shareholders
  - ▶ Lien of shares
  - ▶ Transfer and transmission of shares
  - ▶ Forfeiture and surrender of shares
  - ▶ Conversion of shares in stock
  - ▶ Issuing share warrant
  - ▶ Alteration of capital
  - ▶ Voting rights
  - ▶ Dividends and reserves
  - ▶ Winding up
- 

## **1. DIRECTORS:**

- ▶ The AOA defines the guidelines of the Directors' appointment; their qualifications for appointment; their remuneration once appointed and the powers of the Board of Directors in the Company meetings.

## **2. GENERAL MEETINGS:**

- ▶ The AOA provides the basic framework of all the General Meetings to be conducted as well as all the provisions that are related to the functioning of the General Meetings in any manner.

## **3. ACCOUNTING AND AUDITING:**

- ▶ The provisions in AOA will define the guidelines subjected to the Auditing of the accounting of the Company.

## **4. SHAREHOLDERS:**

- ▶ The AOA streamlines the sub-division of the Share capital of the Company including the rights of the Shareholders and the relationship of these rights with other elements of the Company. The shareholders have to pay the whole or part of the remaining unpaid amount on each share purchased on the Company's demand; i.e. Call on Shares.

## **5. LIEN OF SHARES:**

- ▶ The Company is eligible to retain the Shares of any member of the Company in case they fail to pay the debt to the Company. The member will not be allowed to transfer their shares unless they pay their debt.

## **6. TRANSFER AND TRANSMISSION OF SHARES:**

- ▶ The AOA defines the procedure during the process of transfer of shares between the transferee and the shareholders. Transmission of shares comes into effect with death, insolvency, marriage, succession, etc. It is also a part of AOA despite being involuntary.

## **7. FORFEITURE AND SURRENDER OF SHARES:**

- ▶ The AOA provides for the rules of forfeiture of shares if the member is not able to meet the purchase payments like paying call money or any allotment on the Shares. Shareholders may choose to surrender or voluntarily return their shares to the Company pertaining to the guidelines of the AOA.

## **8. CONVERSION OF SHARES IN STOCK:**

- ▶ The Company can pass an ordinary resolution in a General Meeting to convert their shares into stock. The management of the decision and resolution passed should be in accordance with the AOA.

## **9. ISSUING SHARE WARRANT:**

- ▶ Public Limited Companies are eligible to issue a share warrant staying within the provisions mentioned in AOA. A share warrant is a bearer document which is related to the title of shares issued by the Company.

## **10. ALTERATION OF CAPITAL:**

- ▶ Similar to the conversion of Shares into Stock, AOA provides the rules of the procedure to alter capital as per the Company's interests. The Company can decide to increase, decrease or rearrange the Capital.

## **11. VOTING RIGHTS:**

- ▶ The AOA notes down the specific Company matters which calls for voting by members as well as the procedure of voting whether by a poll or through proxies.

## **12. DIVIDENDS AND RESERVES:**

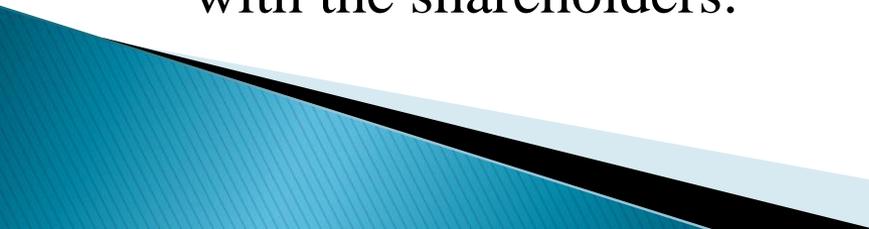
- ▶ The AOA also provides the distribution of dividends among the Shareholders of the Company.

## **13. WINDING UP:**

- ▶ Winding up of the Company means the liquidation of all the assets of the Company to pay its debt. The remaining monies left after the payment of all debt and expenses are distributed among the shareholders of the Company. The AOA also provides the provisions and procedure related to the Winding Up of the Company and has to proceed in accordance with the AOA.

# ALTERING ARTICLES OF ASSOCIATION:

## **SPECIAL RESOLUTION AND IT'S PROVISIONS**

- ▶ A Company can alter its Association of Articles if the need arises. The Company has to pass a Special Resolution (a 2/3rd majority of members present in the General Meeting) in order to alter its provisions. It is also important to remember that the Court does not have the power to alter the AOA. These are the specific guidelines that a company has to adhere to achieve a successful alteration:
  - ▶ The copy of Special Resolution has to be filed with the Registrar within 30 Days of its Passing.
  - ▶ The proposed should not go against the provisions of the Companies Act or the established Memorandum of Association (MOA).i.e. a document that is prepared during the formation of a Company and defines the Company's relationships with the shareholders.
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- ▶ The Company should not propose any illegal activity.
- ▶ The alteration proposed cannot be bonafide for the benefit of the Company.
- ▶ The alteration should not increase the liability of the existing members in any manner.

## **ENTRENCHMENT CLAUSE**

- ▶ The Company can choose to include Entrenchment Provisions in their Articles of Association under Section 5(3) Of Companies Act, 2013. An Entrenchment Clause refers to the effect that a Company may choose to apply to its certain provisions. These provisions, then, can be altered only after meeting specified conditions that are more restrictive than the normal passing of a 2/3rd majority special resolution. The Entrenchment Clause renders the provision difficult or impossible to alter.