

Maharashtra State Board Class 11 Secretarial Practice Solutions

Chapter 5 Members of a Company

1A. Select the correct answer from the options given below and rewrite the statements.

Question 1.

_____ is a person whose name is entered in the Register of Members.

- (a) Member
- (b) Creditors
- (c) Registrar

Answer:

- (a) Member

Question 2.

A person can be called as a Member when the name is entered in _____

- (a) Register of charges
- (b) Register of Members
- (c) List of Members

Answer:

- (b) Register of Members

Question 3.

A _____ cannot be a member of a company.

- (a) foreigner
- (b) woman
- (c) minor

Answer:

- (c) minor

Question 4.

When a person buys shares of a company by filling up an application form, a person becomes a member by _____

- (a) Application and Allotment of shares
- (b) Subscribing to Memorandum
- (c) Transmission of Shares

Answer:

- (a) Application and Allotment of shares

Question 5.

_____ means a person ceases being a member of the company of membership.

- (a) Termination of membership
- (b) Acquisition of membership
- (c) Subscription to membership

Answer:

- (a) Termination of membership

Question 6.

A member has right to participate in General Meetings means, he has a right to _____

- (a) receive dividends
- (b) receive notice and agenda of a meeting
- (c) to transfer his shares

Answer:

- (b) receive notice and agenda of a meeting

1B. Match the pairs.

Question 1.

Group 'A'	Group 'B'
(a) Insane person	(1) Transfer of shares by operation of law
(b) Foreigner	(2) Cannot be a member
(c) Transmission of shares	(3) Cessation of membership
(d) Surrender of shares	(4) To get copies of Auditor's, Directors' Report, etc.

(e) Right of Members	(5) Can be a Member
	(6) To attend a board meeting
	(7) Duties of member
	(8) Surrendering all assets to the company
	(9) Demand or claim money from the company
	(10) Transfer of shares by order of Secretary

Answer:

Group 'A'	Group 'B'
(a) Insane person	(2) Cannot be a member
(b) Foreigner	(5) Can be a Member
(c) Transmission of shares	(1) Transfer of shares by operation of law
(d) Surrender of shares	(3) Cessation of membership
(e) Right of Members	(4) To get copies of Auditor's, Directors' Report, etc.

1C. Write a word or a term or a phrase that can substitute each of the following statements.

Question 1.

End of membership of a person.

Answer:

Termination of membership

Question 2.

A person whose name is entered in the Register of Members.

Answer:

Member

Question 3.

Book in which names of all members are entered.

Answer:

Register of Members

Question 4.

Becoming a member of a company.

Answer:

Acquisition of membership

Question 5.

The subscribers of this document are considered Members of the company.

Answer:

Memorandum of Association

1D. State whether the following statements are True or False.

Question 1.

Buying shares is the most common way to become a Member of the company.

Answer:

True

Question 2.

Both individuals and body corporates can be members of the company.

Answer:

True

Question 3.

Legal competency to enter into contracts is one of the criteria to become a member of the company.

Answer:

True

Question 4.

Limited Liability Partnership cannot be a member of the company.

Answer:

False

Question 5.

Karta of HUF can be a member of the company.

Answer:

True

Question 6.

Member of the company is conferred with several rights.

Answer:

True

Question 7.

Member is entitled to profits of the company when a dividend is declared.

Answer:

True

Question 8.

Members of the company can attend general and Board meetings of the company.

Answer:

False

Question 9.

The right to appoint Director is given to Members.

Answer:

True

Question 10.

Minor can be a member of the company.

Answer:

False

1E. Find the odd one.

Question 1.

Subscribing to Memorandum, Forfeiture of Shares, Application, and allotment of shares.

Answer:

Forfeiture of shares

Question 2.

Death or insolvency of member, Application, and allotment of shares. Surrender of shares.

Answer:

Application and Allotment of shares

1F. Complete the sentences.

Question 1.

A person whose name is entered in the Register of Member of a company is called _____

Answer:

Member

Question 2.

In case of death or insolvency of a member, he will cease to be a _____

Answer:

Member of a Company

Question 3.

Members have a right to appoint and remove the _____

Answer:

Director

1G. Select the correct option from the bracket.

Question 1.

Group 'A'	Group 'B'
(1) Minor
(2) Co-operative society
(3)	Can hold shares in the name of partners

(Partnership firm, Cannot become a member of a company, Can become a member of a company)

Answer:

Group 'A'	Group 'B'
(1) Minor	Cannot become a member of a company
(2) Co-operative society	Can become a member of a company
(3) Partnership Firm	Can hold shares in the name of partners

1H. Answer in one sentence.

Question 1.

Which individuals cannot become a member of a company?

Answer:

Minor, insolvent, insane, or lunatic cannot become a member of a company.

Question 2.

What is the common way of becoming a member of a company?

Answer:

Buying shares is the common way of becoming a member of a company.

1I. Correct the underlined word and rewrite the following sentences.

Question 1.

A Minor can be a member of a company.

Answer:

A Guardian/Mai or person can be a member of a company.

Question 2.

Partnership Firm can be a member of the company.

Answer:

The Partnership firm cannot be a member of a company.

2. Explain the following terms/concepts.

Question 1.

Member

Answer:

A person who is a subscriber to the Memorandum of Association of a Company is called a member.

OR

A person whose name is entered in the Register of Members of the company is called a member of a company.

Question 2.

Transmission of shares

Answer:

Transmission of shares refers to the transfer or passing of property or titles in shares by the operation of law from a member to his legal representative. When transmission of shares takes place the membership of the original shareholder is terminated.

Question 3.

Cessation of Membership

Answer:

Cessation of Membership of a company means the discontinuation of membership. The name of the old member is removed from the Register of the member.

Question 4.

Acquisition of Membership

Answer:

Any person who is competent to contract can become a member after fulfilling certain requirements for the membership of the company.

Question 5.

Eligibility of Membership

Answer:

Buying shares amount to making a contract, so any entity i.e. person/organization competent to make contact can be a member of the company.

3. Study the following case/situation and express your opinion.

1. Mrs. & Mr. A work in a Bank. They have a daughter named Ms. Z who is 11 years old.

Question (a).

Can Mrs. & Mr. A invest in shares of the company?

Answer:

Yes, Mrs & Mr. A can invest in shares of the Company.

Question (b).

Can they buy shares in the name of their daughter Ms. Z?

Answer:

Yes, Mrs. A and Mr. A can buy shares in the name of their daughter Ms. Z.

Question (c).

Justify your answer in (a) & (b) in one sentence only.

Answer:

Justification:

Mrs. A and Mr. A can invest in shares of the Company as they are major citizens.

Similarly, they can buy shares on behalf of their daughter as they are guardians of Ms. Z.

2. M/s. ABC is a Partnership firm owned by Dr. A, Dr. B, Dr. C. The doctors want to invest the profits of ABC in the shares of a company.

Question (a).

Can M/s ABC buy the shares of the company?

Answer:

Yes M/s ABC can buy the shares of the company.

Question (b).

Can profits of M/s. ABC be invested in shares held in the names of Dr. A or Dr. B or Dr. C?

Answer:

They can invest profit of M/s ABC in the names of Dr. A or Dr. B or Dr.C.

Question (c).

Are the doctors eligible to invest in shares of the company?

Answer:

Yes, doctors are eligible to invest in shares of the company.

3. ZEN Limited has some investible profits. Please guide Zen limited with respect to the following?

Question (a).

Can ZEN Limited invest in the shares of itself?

Answer:

No, ZEN Limited cannot invest in the shares of itself.

Question (b).

Can ZEN Limited invest in the shares of TEN Limited?

Answer:

Yes, ZEN Limited can invest in the shares of TEN Limited.

Question (c).

Justify your answers in (a) & (b) in one sentence only.

Answer:

Justification:

ZEN limited being a legal person can be a member of another company TEN Limited. It cannot be a member of its own company as per the Companies act.

4. Answer in brief.

Question 1.

State any four ways of acquiring membership of a company.

Answer:

Any person who is competent to contract can become a member after fulfilling certain requirements for membership in a company.

The different ways to acquire membership of a company are explained below:

(i) By Subscription:

- The subscriber to the Memorandum of Association of a company, who are signatories to the Memorandum of the company is deemed to have agreed to become the members of the company.
- When the company is registered, their names are entered as the members in the Register of Members. In this case, neither an application nor the allotment of shares is important to become a member.

(ii) By Application and Allotment of shares:

- This is one of the methods of acquiring membership. An application for shares is made by an applicant in response to the invitation given by the company through its prospectus.
- The company then allots the shares as an acceptance to his application and offers the shares. The applicant then becomes the shareholder and his name is entered in the 'Register of Members'.

(iii) By Transfer of shares:

- After acquiring the shares by way of sale or gift, the buyer (transferee) is required to get the shares registered in his name in the Register of Members of the company.
- For this an instrument of transfer signed by the buyer and the seller accompanied by the share certificate is to be lodged (sent to) with the company.
- When the company approves the transfer, the name of the transferee is entered in the Register of Members and thus, he becomes a member of a company. The name of the earlier member is struck off from the Register.

(iv) By Transmission of shares:

- In the event of the death or lunacy of a member, his legal heir or representative automatically becomes the shareholder.
- He is entitled to have his name entered in the Register of Members. He can do so by making an application to the company, supported by legal evidence of his title.
- When the company approves the title the name of the legal representative is entered in the Register of Members and thus, he becomes a member of a company.
- This transfer of shares by the operation of law is called the transmission of shares.

Question 2.

State any four ways of cessation of membership of a company.

Answer:

- Cessation/Termination of a member means the discontinuation of membership. His relationship with the company comes to an end.
- The name of the members is removed from the Register of Members as cessation.
- The original member is thus prevented from exercising his rights of membership.

The membership of a person may be terminated in any one of the following ways:

- Winding up of a company: When a company is 'winding up' or exists no more due to the process of law, the membership of all the members stands terminated or cessation automatically.
- Surrender of shares: When the company accepts surrender of partly paid-up shares, if permitted by its Articles, the membership of the shareholder is terminated.
- Transmission of shares: Transmission of shares refers to the transfer or passing of property or titles in shares by the operation of law from a member to his legal representatives. Such an automatic transfer of shares takes place in the event of the death or lunacy of a shareholder. When the transmission of shares takes place, the membership of the original shareholder is terminated.
- Transfer of shares: The transfer of shares is effected by registering an instrument called 'Instrument of Transfer' with the company. When the company approves the transfer, the Secretary cancels the name of the seller from the Register of Members and thus the membership of the shareholder is terminated.
- Forfeiture of shares: When the company forfeits the shares on account of non-payment of call money, the membership of the shareholder whose shares are forfeited comes to an end.

Question 3.

State the rights of members with regard to participation in general meeting.

Answer:

As an integral part of a company, a member enjoys certain rights and has to fulfill certain duties and liabilities.

Following are the rights of members:

- Right to receive the notice and agenda of all general meetings, attend them in person or appoint a proxy, speak and vote at the meeting, demand to call Extra-Ordinary General meeting and pass resolutions.
- Right to receive the copy of annual reports, auditors' reports, statutory reports, and the annual account are on his registered address.
- Right to transfer shares, if any, imposed by the Article of Association.

- Right to receive bonus shares whenever issued by the company.
- Right to get the name entered in the Register of members and be registered as a member of the company,
- Right to receive a share in the surplus property and assets of the company on winding up of the company after all other claims have been paid.

5. Justify the following statements.

Question 1.

Member and Shareholder are interchangeable terms.

Answer:

- A person whose name is entered in the register of members of a company is called a member and a person who owns shares of a company and holds actual possession of shares is called a shareholder of a company.
- A shareholder becomes a member of a company only when his name is recorded in the Register of Members. A person who buys a share in an open market is a shareholder. But he cannot be called a member until the procedure of transfer of shares in his name is completed.
- In the case of death, or lunacy of a member of a company, his legal representative becomes the shareholder but he cannot be called a member until the procedure for transmission of shares in his name is completed.
- A shareholder who transfers his share to another person is not a member until the transfer is registered and the name of the transferee is recorded in the Register of Members.
- A person who subscribes to the Memorandum of Association may not be called a member until the shares are actually allotted to them. Thus, I agree with the above statement.

Question 2.

A foreigner can invest in shares of an Indian company.

Answer:

- A foreigner can enter into contract.
- Foreigners can buy shares and become a member of an Indian company, subject to provisions of FEMA Act 1999.
- 'FEMA' aims at facilitating external trade and promote the foreign exchange market in India.
- Foreigner falls under the category of individual eligibility to be a member of a company.
- Thus, I agree with the above statement.

Question 3.

The insolvent person ceases to be a member of the company.

Answer:

Yes, I agree with the statement.

- On, becoming insolvent, a person's beneficial rights of shareholders passes to Official Receiver or Assignee.
- Thus, the insolvent person stops being a member of the company on his insolvency.
- Official Receiver is an officer appointed by the court, to deal with the property and assets of the insolvent person.
- On being insolvent a member ceases to be a member of the company and thus he can neither attend Annual General Meeting nor can he vote on matters of the company.
- Thus, I agree with the above statement.

Question 4.

The Co-operative Society is eligible to be a member of the company.

Answer:

- The Co-operative Society falls under the category of Organizations eligible for membership of a company.
- Co-operative Societies are registered under the State Co-operative Societies Act of respective states.
- A Co-operative Society is a registered entity, it can become a member of the company.
- Thus, it can invest in shares of the company and also enjoys all the rights of membership.
- It also has a right to receive notice of meeting, attend the meeting, vote in meeting, etc.
- Thus, I agree with the above statement.

Question 5.

Subscribers to the Memorandum of Association are the first members of the Company.

Answer:

- There are different ways for the acquisition of membership in a company.
- Subscribing to Memorandum of Association is one of the way of acquiring membership in a company,
- Subscribers to the Memorandum of Association of companies are different in different cases i.e. Seven (7) members in the case of a Public Company, Two (2) members in the case of a Private company, and One (1) in case of One Person Company.
- Thus, I agree with the above statement.

Question 6.

The nominee of the member of OPC becomes its member on the death of the member.

Answer:

- In an acquisition of membership, there are different ways to become a member of the company.
- In the case of One Person Company, the name of the nominee is given beforehand in the Memorandum of One Person Company.
- So, in case of the death of a member, his nominee automatically becomes the sole owner of the company.
- But he cannot be called as a member of the company until all procedure of transmission of shares is completed.

- Thus, I agree with the above statement.

Question 7.

Members of the company are entitled to several rights.

Answer:

- Being an integral part of a company, members enjoy certain rights and have to fulfill the duties and liabilities.
- Member has the right of accessing books and documents of a company. He can make copies of the Memorandum and Article of Association. He has the right to appoint Auditors and Directors and decide their salary and remuneration.
- He can inspect the Register of Members and Debentureholders register.
- He has right to make a Fundamental Corporate Decision like – Change of Registered office of the company, increase authorized capital, change in the object of the company, make amendment in Articles of Association, right of winding up the company, etc.
- He has the right to receive the notice and agenda of a meeting. He can attend the Annual General Meeting in personal or he can send his proxy to attend the meeting.
- Thus, I agree with the above statement.

Question 8.

Members of the company have some fundamental corporate decision-making rights.

Answer:

- Members hold powers to decide at meetings on important matters.
- He has certain fundamental rights like a change of registered office of the company.
- He can increase the authorized capital of the company.
- He can change the objects of the company because he is a member of the company as well as the owner of the company.
- He also has a right to amend the Articles of Association.
- He also has a right to acquisitions, mergers, and takeovers by the company. He can appoint sole selling agents for the company.
- He also has a fundamental right to close or wind up the company.
- Thus, I agree with the above statement.

Question 9.

Transfer of shares results in termination of membership.

Answer:

- On termination of membership, the name of the member is removed from the Register of Members.
- Companies Act empowers every shareholder to transfer his share in the manner laid down in the Articles and in accordance with the provisions of the law.
- A transfer of share takes place when a registered shareholder transfers his shares by sale or gift to another person voluntarily.
- Transfer of shares by operation of law in event of death or insolvency of members is called the transmission of shares. The legal representative/heir in case of death, official receiver in case of insolvency, and administrator in case of insanity replaces the concerned member.
- When the company approves the transfer, the Secretary cancels the name of the seller i.e. (transferor) from the Register of Members, and the membership of the shareholder stands terminated after transferring the shares.
- Thus, I agree with the above statement.

6. Answer the following questions.

Question 1.

Explain the circumstances when Member is not a shareholder and vice-versa.

Answer:

An organization is formed for purpose of education, sports, health, business with well-defined objectives and relationships. The organization is by 'members' and 'only for members.'

"Member means a person whose name is entered in the Register of Members of the company and are the holder of equity shares and are a beneficial owner in the records of Depository.

Buying shares is the most common and easy way where a person becomes a member of the company.

Following are different circumstances when Member is not a shareholder:

- Member without being a shareholder:
 - Signatories to the Memorandum of Association: They are members of the company but not shareholders till the shares are not allotted to them.
 - Company Limited by Guarantee Amount: This company does not have any share capital. Therefore, it has only members, not the shareholders.
 - Transfer of shares: Transferor (seller) of shares continue to be a member of the company, till his name is removed from the Register of Members and is replaced by transferee's (buyer) name.
 - On the death of a member: On the death of a member, his legal heir becomes the holder of deceased member shares. But he is not a member of a company until the procedure of transmission of shares is completed.
 - On insolvency of member: Shares of insolvent member are held by court-appointed Official Receiver. So the insolvent person continues to be a member but not the shareholder.
- Shareholder without being a member: The buyers of the shares, Official Receiver in case of insolvency; legal heir in case of death as explained above are shareholders but not the members of the company.

Question 2.

Explain the eligibility of memberships of a company.

Answer:

- The organization is formed and managed by persons termed as 'Member'.
- So it is rightly said organization is by 'member' and 'only for members'.
- Any entity i.e. person or organization who is competent to make a contract can become a member of the company.
- Subject to provisions of the Companies Act, 2013, Memorandum of Association, and Articles of Association, any person who is legally competent to manage their own affairs ('Sui-Juris') can become a member of the company.

Eligibility Criteria:

(A) Individuals:

- Major person: Any person domiciled (staying) in India, having completed 18 years of age, having a sound mind, and not be disqualified by law can become a member of the company.
- Minor: A minor cannot be a member of a company but a guardian can be a member of a company on behalf of a minor.
- Insolvent: Insolvent person cannot be a member of a company as his beneficial rights of shareholding are held by the Official Receiver, an officer appointed by the court.
- Insane/Lunatic: Insane/Lunatic person is unable to enter into a contract which makes him ineligible to be a member of a company.
- Foreigner: A foreigner or Non-resident Indian can become a member of a company, subject to provisions of FEMA Act, 1999.

(B) Organizations:

- Company: A company being a legal person can be a member of another company if authorized by its Memorandum of Association. It cannot be a member of its own company.
- Co-operative Society: Since co-operative societies are registered entity, they can be a member of the company.
- Limited Liability Partnership (LLP): Such, firms are treated as a juristic person, hence it can be a member of the company.
- Hindu Undivided Family: HUF firm is prohibited to be a member of a Company, but 'Karta' can buy a share in his name on behalf of Hindu Undivided Family firm.
- Partnership Firm: Since the partnership firm is not a registered entity. It cannot be a member of the company. But partners themselves can buy shares in their individual names.
- Trust: Registered trust can become a member of a company in its own name.

Question 3.

Explain different ways to acquire membership of the company briefly.

Answer:

Any person who is competent to contract can become a member after fulfilling certain requirements for membership in a company.

The different ways to acquire membership of a company are explained below:

(i) By Subscription:

- The subscriber to the Memorandum of Association of a company, who are signatories to the Memorandum of the company is deemed to have agreed to become the members of the company.
- When the company is registered, their names are entered as the members in the Register of Members. In this case, neither an application nor the allotment of shares is important to become a member.

(ii) By Application and Allotment of shares:

- This is one of the methods of acquiring membership. An application for shares is made by an applicant in response to the invitation given by the company through its prospectus.
- The company then allots the shares as an acceptance to his application and offers the shares. The applicant then becomes the shareholder and his name is entered in the 'Register of Members'.

(iii) By Transfer of shares:

- After acquiring the shares by way of sale or gift, the buyer (transferee) is required to get the shares registered in his name in the Register of Members of the company.
- For this an instrument of transfer signed by the buyer and the seller accompanied by the share certificate is to be lodged (sent to) with the company.
- When the company approves the transfer, the name of the transferee is entered in the Register of Members and thus, he becomes a member of a company. The name of the earlier member is struck off from the Register.

(iv) By Transmission of shares:

- In the event of the death or lunacy of a member, his legal heir or representative automatically becomes the shareholder.
- He is entitled to have his name entered in the Register of Members. He can do so by making an application to the company, supported by legal evidence of his title.
- When the company approves the title the name of the legal representative is entered in the Register of Members and thus, he becomes a member of a company.
- This transfer of shares by the operation of law is called the transmission of shares.

(v) By holding shares in the Dematerialized form:

The person holding shares in dematerialized form and has his name as a beneficial owner in the records of Depository is treated as a member of the company.

(vi) Nominee of One Person Company (OPC):

In the case of One Person Company, the name of the nominee is given beforehand in the Memorandum of One Person Company. He becomes the sole owner of the shareholdings of the deceased member.

(vii) By Acquiescence:

If a person is wrongly entered in the Register of Members or holds or allows his name as the Register of Members without informing the company about its mistake, he is treated and made liable as a member in the event of liquidation of a company.

Question 4.

Explain how membership of the company terminates.

Answer:

Cancellation of membership of a shareholder is called Termination or Cessation of membership. On termination of membership, all rights of a member are canceled.

Following are the ways of Termination of membership:

(i) Transfer of shares: Transfer of shares is effected by registering an instrument called Instrument of Transfer with the company. The secretary cancels the name of the seller from the Register of Members and thus the membership of the shareholder is terminated.

(ii) Transmission of shares: Transmission of shares refers to the transfer of shares by operation of law. This is an automatic transfer of a share in the event of death or lunacy of a shareholder. When the transmission of shares takes place, the membership of an original shareholder is terminated.

(iii) Winding up: When a company is winding up, the membership of all the members stands terminated automatically.

(iv) Forfeiture of shares: When a company forfeits the shares on account of non-payment, of calls on shares, shareholder's shares are forfeited and he ceases to be a member of the company.

(v) Surrender of shares: When a company accepts surrender of partly paid-up shares if permitted by its Articles, the membership of the shareholder is terminated.

(vi) Redemption of Preference shares: When the redeemable preference shares are redeemed (repaid) to the shareholder by the company as per the terms of issue, the membership comes to an end.

(vii) Right of lien as shares: When a shareholder has some obligation towards the company, it is said to be lien on shares by the company. It means shareholders cannot sell their shares until they clear their dues or obligations if any. In case of his failure to pay his dues company cancels his shares and his membership comes to an end.

Question 5.

Explain the Rights of a Member of a company.

Answer:

Being a part of a company, a member enjoys certain rights and has to fulfill certain duties.

Right of members are as follows:

1. Right of accessing books and documents: A member can get copies of Memorandum and Articles of Association, Auditors and Directors Reports, Balance Sheet and Profit and Loss A/c. Members can also check the Register of members.
2. Right to participate in General meetings: Members have the right to receive notice and agenda of all general meetings, attend the meeting personally or appoint a proxy, vote at the meeting, etc.
3. Right to appoint and remove a Director: Member of a company has the right to appoint and remove the directors.
4. Shareholding rights: Shareholders have the right to receive a share certificate, transfer his shares, to get right issue and bonus issue shares.
5. Right to Class Action Suit: The Act confers the right of Class Action Suit to members against the company or their directors in the time of any unlawful or wrongful act. They can file a petition to wind up the company.
6. Right to receive surplus assets: In the event of the winding-up of the company, the member has the right to get a share in surplus assets of the company.
7. Right with respect to the company's accounts and its audit: Members have the right to approve the annual accounts at the Annual General Meeting. He can appoint auditors, fix their salary, and has a right to remove the auditors.
8. Right to participate in the profit of the company: Members invest money in the company and expect a certain return in form of dividends. They have the right to receive dividends within 30 days of its declaration in the Annual General Meeting.
9. Right to make Fundamental Corporate Decision: Members hold powers to decide at a meeting on important matters like a change of Registered office of the company, increase authorized capital of the company, change the objects of the company, to amend an Articles of Association, right of acquisitions, mergers and takeovers by the company, appoint a sole selling agents for the company, rights to close or wind up the company.

[Activity \(Textbook Page No. 72\)](#)

Find the composition of shareholding of a listed public company.

Answer:

"Listed Public Companies" means a public company that has any of its securities listed in any recognized stock exchange. One of the advantages to the shareholder(s) of a Public Company is free transferability of shares and in the case of Listed Companies such free

transferability also ensures quick liquidity of the investment. However, such liquidity is only possible when there is an existence of buyers and sellers in the market. In many Listed Companies, a large chunk of the paid-up capital is held by the promoter group which reduces the public shareholding to a great extent.

The promoter group usually refrains from trading in their shares which in turn reduces the number of buyers and sellers in the market and the liquidity factor also gets affected. In order to ensure a minimum level of Public Shareholding in Listed Public Companies and to provide liquidity to the investors, the Ministry of Finance amended the Securities Contracts (Regulation) Rules, 1957 [SCCR, 1957] twice in the year 2010. The press note released by the Ministry of Finance upon the first amendment of SCCR, 1957 stated "A dispersed shareholding structure is essential for the sustenance of a continuous market for listed securities to provide liquidity to the investors and to discover fair prices".

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