Guidance Note: Fully [redacted] Partly Paid Shares

When issuing new shares directors [redacted] her they should be issued fully paid, partly paid or nil paid. Howev[redacted]

1. What is the nominal value [redacted]

The Companies Act 2006 re[redacted] alue to be attached to each share in a company (s.542 C[redacted] s is known as the nominal value of a share and is its face or p[redacted] f shares cannot be understood without considering nominal [redacted]

The face value of a share is [redacted] l share value, which is the value of the shares if sold (i.[redacted] The nominal value is a fixed figure assigned to each shar[redacted] oth for company book keeping purposes and more significa[redacted] member's liability to that amount per share. If a comp[redacted] lls or is wound up, the owners of the business are legally re[redacted] aid shares immediately. Shares are therefore often issued wi[redacted] **Shares cannot be issued for an amount less than their** [redacted]

The total issued share capit[redacted] pany is the total value of shares in issue. For example, a com[redacted] ith a nominal value of £1 has an issued share capital of £1[redacted]

2. What are nil paid and partly [redacted] do they differ from fully paid shares?

When shares are issued, the[redacted] ally with a nominal value of £1 per share) is normally paid in[redacted] hares are called **fully paid shares.**

With nil paid or unpaid share[redacted] are issued none of the subscription price is paid and[redacted] ins outstanding.

Partly paid shares are where [redacted] price is paid with the balance remaining outstanding.

Shareholders of nil and partl[redacted] he liability to pay at a later date and the company still retains [redacted] lance outstanding therefore not falling foul of the law prevent[redacted] or an amount less than their nominal amount.

For a share with a nominal v[redacted]

- the full £1 will need to [redacted] pany for it to be fully paid;
- if only 75p is paid, the [redacted] with 25p outstanding and due. The shareholder will [redacted]
- for a share where not[redacted] y has received zero consideration for it. Th[redacted] and can still be called up at a later date by the comp[redacted]

Most shares that are issued b [redacted] id.

In determining whether a com [redacted] s other than fully paid up, directors need to take into ac [redacted] within the company's articles of association and their duty as [redacted] success of the company (s.172 Companies Act 2006).

3. Why use partly paid shares [redacted]

The practice of a company ha [redacted] was evident during the sale of nationalised industries in the [redacted] ent allowed shares to be paid for in instalments in order to [redacted] en on the public. Today partly paid shares may also be use [redacted] d schedule of payments, however they are often used [redacted] nvenience when setting up a company or where the capita [redacted] or run the business.

The main other significant rea [redacted] implement a partly paid share arrangement is that it can off [redacted] a company to incentivise employees with its shares. T [redacted] t area beyond the scope of this guidance.

4. Are there potential problem [redacted] paid shares?

There are various company l [redacted] mpanies need to take into account with both partly paid [redacted] se are:

- there may be restrictio [redacted] s of association, therefore the articles should author [redacted] it) the issue of nil paid or partly paid shares. The mod [redacted] panies (article 21) requires all shares to be issued fu [redacted] s not prevent the articles from being amended to inc [redacted] or nil and partly paid shares;
- the articles should de [redacted] f partly paid or nil paid shares;
- the articles should ad [redacted] dends where the shares are not fully paid and whe [redacted] o have voting rights; and
- under section 691 of t [redacted] a company can only buy back its own shares if they [redacted]

5. How does the process of tr [redacted] if the shares are not fully paid?

Section 770(1)(a) of the Com [redacted] at a company must not register a transfer of shares i [redacted] proper instrument of transfer has been delivered to it. Ther [redacted] tions to this but they will largely not be relevant to the transfe [redacted] ate company.

A proper transfer is one capa [redacted] ty. The company's articles of association will often specify [redacted] er may be used and article 26 of the model articles for priva [redacted] shares, require shares to be transferred by an instrument [redacted] rm or any other form approved by the directors. The usual fo [redacted] ed by the Stamp Transfer Act 1963 (STA) (as amended) an [redacted] a **stock transfer form**.

The STA only applies to fully [redacted] fore the requirements of a company's articles of associa [redacted] nsfer instrument must be observed whenever partly pa [redacted] ferred. For private companies with model articles this will in [redacted] a stock transfer form but it is essential that a different form [redacted] ng fully paid shares to ensure that the liability to pay further [redacted] so transferred.

Stock Transfer Form J30 sho [redacted] lly paid shares, but Form J10 should be used to transfer pa [redacted] s Form J30 is only executed by the transferor, Form J10 (whi [redacted] as Form J30 with modifications) must also be s [redacted] iving the shares – the transferee, as in doing so, the [redacted] ity to pay any future calls which might be made on the shares [redacted] ransferor and the company, meaning that if a call falls due [redacted] tling it rests with the transferee (the person the shares have [redacted]

6. What is the procedure for g [redacted] shares?

The simplest way to get rid o [redacted] the shares to be cancelled by means of a capital reduction. [redacted] his can be carried out using the solvency statement procedur [redacted]

There is more detail in our Co [redacted] capital reductions via the solvency statement route her [redacted]