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Bachelor of Business Administration (BBA) | Semester 4 | UK4DSCMGT203

Corporate Regulations

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Corporate Constitution and Registration Documents

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1. Memorandum of Association (MoA): The Fundamental Charter

The Memorandum of Association (MoA) is the principal constitutional document of a company, defining its legal boundaries, objects, and external relationships. Lord Cairns in *Ashbury Railway Carriage and Iron Co. Ltd. v. Riche (1875)* stated that the Memorandum of Association of a company is its charter, defining the limitation of the power of the company established under the Act. Under Section 4 of the Companies Act 2013, the MoA must be drafted in accordance with the prescribed statutory formats (Tables A, B, C, D, and E of Schedule I) depending upon whether the company is limited by shares, guarantee, or unlimited.

Detailed Analysis of the Six Statutory Clauses of the Memorandum

Under Section 4(1), every Memorandum must contain six mandatory clauses:

1. **The Name Clause:** States the official legal name of the entity, ending with "Limited" in the case of a public company, and "Private Limited" in the case of a private company (exempted for Section 8 companies). The name must not be undesirable, offensive, or identical to any existing registered corporate name or protected trademark. Under Section 13(2), changing the corporate name requires a Special Resolution and approval of the Central Government (delegated to ROC). If a name is found to be inadvertently identical, the ROC can issue directions under Section 16 for rectification within three months by passing an ordinary resolution.
2. **The Registered Office Clause (Situation Clause):** Specifies the State in which the registered office of the company is situated. The exact physical address must be finalized and communicated to the ROC in Form INC-22 within 30 days of incorporation to establish domicile and judicial jurisdiction for legal notices. Moving the registered office from one city to another within the same State requires a Board or Ordinary Resolution; moving from one ROC jurisdiction to another within the same State requires Regional Director approval; moving from one State to another requires a Special Resolution, Central Government / Regional Director confirmation under Section 13(4), and public notices to protect creditors.
3. **The Object Clause:** Delineates the business pursuits for which the company is formed and any matters considered necessary in furtherance thereof. Under the 2013 Act, the historical bifurcation between "Main Objects" and "Other Objects" was unified into a single streamlined object clause. Any contracts executed beyond these stated objects are ultra vires and void ab initio. Under Section 13(8), changing the objects clause requires a Special Resolution. If the company raised public funds through a prospectus and has unspent capital, it must publish justification notices in newspapers and provide dissenting shareholders an exit opportunity at fair value in accordance with SEBI regulations.

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4. **The Liability Clause:** States whether the liability of members is limited by shares (limited to unpaid value on shares) or limited by guarantee (specifying the contribution amount guaranteed in the event of winding up). This clause cannot be altered to increase a member's financial liability without their express written consent.
5. **The Capital Clause:** Sets forth the nominal or authorized share capital with which the company is registered, and its division into shares of fixed denomination (e.g., ₹10,00,000 divided into 1,00,000 equity shares of ₹10 each). Under Section 61, a company limited by shares may alter its capital clause to increase authorized capital, consolidate shares into larger denominations, sub-divide shares into smaller denominations, or cancel unissued shares, provided authorization exists in the Articles and an ordinary resolution is passed.
6. **The Association / Subscription Clause:** Contains declarations by subscribers expressing their desire to be formed into a company and agreeing to take the number of shares set opposite their respective names (minimum 1 share per subscriber). For an OPC, this clause includes the name of the nominee. The subscription commitment creates a statutory debt payable upon calls made by directors.

Procedural Matrix for Alteration of Memorandum Clauses

MoA Clause	Resolution Required	Regulatory Approval / Filing	Key Statutory Safeguards
Name Clause (Sec 13(2))	Special Resolution	Central Government (ROC) & Form MGT-14, INC-24	Cannot adopt identical or prohibited name; fresh certificate issued.
Rectification of Name (Sec 16)	Ordinary Resolution	Central Government Direction & Form INC-24	Mandatory within 3 months if infringing on prior trademark.
Situation Clause (Within same city)	Board Resolution	Notice in Form INC-22 within 30 days	Internal administrative relocation only.
Situation Clause (Across ROCs in state)	Special Resolution	Regional Director in Form RD-1; INC-28, INC-22	Ensures no jurisdictional disruption to local investigations.
Situation Clause (State to State)	Special Resolution	Regional Director / CG in Form INC-23; INC-28, INC-22	Newspaper ads in INC-26, creditor consent, fresh CIN issued.
Object Clause (Sec 13(8))	Special Resolution	ROC filing in Form MGT-14	Mandatory exit offer to dissenting investors if public IPO funds unspent.
Capital Clause (Sec 61)	Ordinary Resolution	Notice to ROC in Form SH-7 within 30 days	Requires authority in Articles; includes consolidation & sub-division.

2. The Doctrine of Ultra Vires in Company Law

The Latin term "ultra vires" literally translates to "beyond powers." In corporate jurisprudence, any act or transaction executed by a company that exceeds the powers authorized by its Memorandum of Association, or exceeds statutory limits defined by the Companies Act, is strictly ultra vires the company. Such contracts are wholly null, void ab initio, and incapable of being validated even if all shareholders give unanimous consent.

The classic application of this rule occurred in *Ashbury Railway Carriage and Iron Co. v. Riche (1875)*. The company's object clause authorized it "to make and sell, or lend on hire, railway carriages and wagons, and all kinds of railway plant, fittings, machinery, and rolling-stock; and to carry on the business of mechanical engineers and general contractors." The directors entered into a contract with Riche to finance the construction of a railway line in Belgium. When the company repudiated the contract, Riche sued for damages, arguing that the words "general contractors" encompassed financing railway construction and that shareholders had ratified the contract. The House of Lords rejected the claim, holding that "general contractors" must be interpreted in connection with the preceding words (railway carriage makers) and that financing railway construction was ultra vires the company. Because the agreement was beyond the corporate powers conferred by the Memorandum, it was entirely void and incapable of shareholder ratification.

A crucial distinction must be maintained between three levels of ultra vires actions:

- **Ultra Vires the Company:** Acts beyond the powers conferred by the Memorandum of Association. These are completely void and cannot be ratified by shareholders under any circumstances.
- **Ultra Vires the Directors but Intra Vires the Company:** Acts within the corporate charter objects of the company but exceeding the specific authority delegated to directors by the Articles. These transactions are not void; they can be ratified by shareholders passing a resolution in a general meeting.
- **Ultra Vires the Articles:** Acts that violate internal procedural regulations contained in the Articles of Association. Such acts can be validated by altering the Articles by passing a Special Resolution.

Legal Consequences and Remedies Regarding Ultra Vires Transactions

The legal consequences flowing from ultra vires corporate actions include:

- **Injunction:** Any shareholder can approach the court or NCLT to obtain an injunction restraining the company and its board from executing an ultra vires contract.
- **Personal Liability of Directors:** Directors who misapply corporate funds in ultra vires ventures are personally liable to reimburse the company for resulting financial losses, as directors hold corporate capital in a fiduciary capacity.
- **Breach of Warranty of Authority:** If directors induce a third party to enter into a contract beyond corporate charter powers, directors can be held personally liable to the third party for damages for breach of implied warranty of authority.

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- **Doctrine of Subrogation and Tracing:** If a third party lends money under an ultra vires borrowing contract, the debt cannot be recovered through a regular action on debt. However, under the doctrine of tracing, if the money remains identifiable in corporate bank accounts, the lender can obtain an injunction to recover it. If the borrowed funds were used to discharge legitimate legal corporate debts, the lender is subrogated to the rights of those discharged creditors.

3. Articles of Association (AoA) and the Hierarchy of Corporate Documents

The Articles of Association (AoA) constitute the internal operational rulebook of a company, regulating internal administration, governance procedures, rights of members, and the conduct of corporate officers. While the MoA establishes the fundamental corporate charter and external scope, the AoA prescribes the procedural mechanisms through which that charter is realized. Under Section 5 of the Companies Act 2013, the Articles must be prepared in accordance with Table F (for companies limited by shares), Table G, H, I, or J of Schedule I.

Comparison between Memorandum and Articles of Association

Comparison Parameter	Memorandum of Association (MoA)	Articles of Association (AoA)
Legal Definition & Nature	Fundamental corporate charter defining external boundaries and core powers (Section 4).	Internal administrative bylaws governing internal management and procedural rules (Section 5).
Scope of Relationship	Regulates relationships between the company and outside parties/public.	Governs relationships between the company and its members, and among members inter se.
Hierarchy & Supremacy	Supreme constitutional document; subordinate only to the Companies Act 2013.	Subordinate to both the Companies Act 2013 and the Memorandum of Association.
Legal Effect of Transgression	Acts ultra vires the MoA are void ab initio and cannot be ratified even by unanimous consent.	Acts ultra vires the AoA but intra vires the MoA are merely irregular and can be ratified by members.
Alteration Complexity	Requires Special Resolution, and frequently central government or Regional Director approval.	Can be altered by passing a Special Resolution under Section 14, subject to statutory limits.

Entrenchment Provisions and the Binding Legal Effect of Articles

Under Section 5(3) of the Companies Act 2013, the Articles may contain **entrenchment provisions** stating that specified clauses may only be altered if conditions or procedures that are more restrictive than a special resolution are met (such as requiring 90% or unanimous member consent). Entrenchment provisions can be introduced either on formation of the company or through an

amendment agreed to by all members in a private company, or by a special resolution in a public company. Notice of entrenchment must be filed with the ROC in Form INC-7 or MGT-14.

Under Section 10, the registered Articles bind the company and its members to the same extent as if they had been signed by each member. This establishes three distinct legal relationships: (i) binding members to the company; (ii) binding the company to members; and (iii) binding members inter se. However, the Articles do not create a contract between the company and external third parties. In *Eley v. Positive Government Security Life Assurance Co. Ltd. (1876)*, the Articles stated that Eley should be the permanent solicitor of the company. When the company ceased employing him, Eley sued for breach of contract. The court dismissed the claim, holding that the Articles do not constitute a contract between the company and an outsider, even if named in the Articles.

Statutory Limits on the Alteration of Articles

While Section 14 empowers companies to alter their Articles by passing a Special Resolution, this power is subject to strict judicial and statutory boundaries:

- **Subordination to Act and Memorandum:** No alteration can override the provisions of the Companies Act 2013 or exceed powers granted in the Memorandum of Association. Under Section 6, the Act overrides anything contrary in the Articles.
- **Cannot Deprive Vested Rights Retrospectively:** In *Allen v. Gold Reefs of West Africa Ltd. (1900)*, the court confirmed that alterations must be bona fide for the benefit of the company as a whole and cannot oppressively confiscate existing member rights without valid corporate justification.
- **Fraud on Minority Prohibited:** An alteration cannot be executed merely to enable a majority group of shareholders to expropriate the shares or legitimate property rights of a minority. In *Brown v. British Abrasive Wheel Co. (1919)*, an alteration forcing a 2% minority to sell their shares to the 98% majority was declared invalid as an unjustifiable abuse of power.
- **Conversion Safeguards:** Altering Articles to convert a private company into a public company or vice versa requires strict adherence to statutory filing requirements and approval from the Regional Director.

4. Doctrine of Constructive Notice and Doctrine of Indoor Management

Corporate interactions with external third parties are governed by two reciprocal legal doctrines:

The Doctrine of Constructive Notice

Under Section 399 of the Companies Act 2013, the Memorandum and Articles of Association, once registered with the Registrar of Companies, become public documents accessible to any member of the public upon payment of prescribed inspection fees. Consequently, the law presumes that every external party entering into commercial transactions with a company has read and understood the provisions of these documents. This legal presumption is known as the **Doctrine of Constructive Notice**. If an outsider enters into a contract that conflicts with powers outlined in the Memorandum or Articles, they cannot plead ignorance; the contract is unenforceable against the company.

The Doctrine of Indoor Management (Turquand's Rule)

Because the Doctrine of Constructive Notice could operate harshly against innocent third parties dealing with companies in good faith, the judiciary established an equitable mitigating doctrine known as the **Doctrine of Indoor Management**, or the Rule in *Royal British Bank v. Turquand (1856)*.

In this landmark case, the Articles of Royal British Bank authorized directors to borrow on bond such sums of money as were authorized by a general resolution of the company in a general meeting. The directors borrowed money from Turquand on a bond without obtaining the requisite resolution. When the bank defaulted, it defended the claim on grounds that the borrowing was unauthorized. Chief Justice Jervis held that while outsiders dealing with a company are bound to read its public constitution (the MoA and AoA), they are not bound to inquire into the internal regularity of company management. Outsiders are entitled to presume that internal proceedings and authorizations required by the Articles have been duly complied with. The bank was accordingly held liable on the bond.

Exceptions to the Doctrine of Indoor Management

The protection under Turquand's Rule is not absolute and cannot be claimed under the following established circumstances:

- **Knowledge of Irregularity:** If an outsider had actual knowledge that internal procedures were not fulfilled, or possessed insider awareness (such as a director dealing with the company in a personal capacity), they cannot claim protection. In *Howard v. Patent Ivory Manufacturing Co. (1888)*, directors loaned money to the company exceeding their statutory authority without obtaining general meeting assent; as directors, they knew the resolution had not been passed, and could not recover beyond authorized limits.
- **Suspicion of Irregularity (Negligence):** If the circumstances surrounding the transaction are unusual or abnormal such as would excite suspicion in the mind of a reasonable business person, failure to make proper inquiry forfeits protection. In *Anand Bihari Lal v. Dinshaw & Co. (1942)*, an accountant transferred company real estate to an outsider; the transfer was void because an accountant has no apparent authority to sell corporate property.
- **Forgery:** Turquand's Rule does not validate forged documents. In *Ruben v. Great Fingall Consolidated (1906)*, the company secretary forged the signatures of two directors on a share certificate and affixed the company seal for his personal gain. The House of Lords held that the certificate was a complete nullity; the company was not bound by a forged instrument because forgery cannot be characterized as an internal procedural irregularity.

5. Prospectus: Statutory Requirements, Types, and Misstatement Liabilities

Under Section 2(70) of the Companies Act 2013, a "prospectus" is defined as any document described or issued as a prospectus, including a shelf prospectus or red herring prospectus, or any notice, circular, advertisement, or other document inviting offers from the public for the subscription or purchase of securities of a body corporate. Only public companies can issue a prospectus inviting public investment.

Typologies of Prospectus under the Companies Act 2013

Prospectus Type	Governing Section	Validity Period	Key Structural Features
Shelf Prospectus	Section 31	Maximum 1 Year	Issued by financial institutions for multiple debt/equity offerings; updates filed via Information Memorandum (PAS-2).
Red Herring Prospectus	Section 32	During Bidding	Contains quantum without price or price band without quantum; used in book building to discover market price.
Abridged Prospectus	Section 33	Matches Main Issue	Mandatory summary of salient features attached to every share application form distributed to the public.
Deemed Prospectus	Section 25	Public Offer Stage	Offer document issued by intermediary issuing houses when company allots securities with view to public resale.

Private Placement Framework (Section 42): A private placement is an offer of securities to a select group of persons (not exceeding 200 persons in a financial year, excluding QIBs and employees under ESOP) via Private Placement Offer Letter in Form PAS-4. Monies must be paid through banking channels, not cash, and allotment must be completed within 60 days of receiving funds.

Statutory Rules for Allotment of Securities (Section 39)

A public company cannot allot shares unless the following statutory preconditions are fulfilled:

1. **Minimum Subscription:** Under Section 39(1) and SEBI regulations, no allotment can be made unless the minimum subscription stated in the prospectus (minimum 90% of total issued amount) has been subscribed and the application money (minimum 5% of nominal value, or 25% under SEBI) has been realized.
2. **Refund on Failure:** If minimum subscription is not achieved within 30 days from the date of issue of the prospectus, all application money received must be refunded within 15 days from closure of the issue. If delayed beyond 15 days, directors are jointly and severally liable to repay the money with 15% annual interest.
3. **Return of Allotment (Form PAS-3):** Once shares are validly allotted, a Return of Allotment must be filed with the ROC within 30 days, containing a complete schedule of allottees, addresses, number of shares, and consideration received.

Book Building Process and Price Discovery Mechanism

In modern public equity offerings, price discovery is conducted via book-building under SEBI (Issue of Capital and Disclosure Requirements) Regulations. The issuer states a **Price Band** in the Red Herring Prospectus (where the cap price cannot exceed 120% of the floor price) or a minimum Floor Price. Bidders submit electronic bids indicating quantities and prices. The **Cut-Off Price** is the strike price discovered through aggregate demand at which the entire issue is fully subscribed. Qualified

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Institutional Buyers (QIBs) are allocated up to 50% of the net issue, Non-Institutional Investors (NIIs / HNIs) receive 15%, and Retail Individual Investors (RIIs) receive 35%. **Anchor Investors** (institutional investors applying for minimum ₹10 Crore) can be allocated up to 60% of the QIB portion with a mandatory 30-day lock-in period, signaling institutional confidence to retail subscribers.

Liabilities for Untrue Statements and Misrepresentations in a Prospectus

A prospectus must reflect the golden rule of disclosure (established in *New Brunswick and Canada Railway Co. v. Muggeridge*), requiring scrupulous accuracy and disclosure of all material facts without concealment or distortion. When an untrue or misleading statement appears in a prospectus, the law imposes rigorous dual liabilities:

1. **Civil Liability (Section 35):** Directors, promoters, experts, and every person who authorized the issue of the prospectus are jointly and severally liable to compensate every investor who subscribed to securities on the faith of the prospectus and sustained financial loss. A subscriber can also claim rescission of the share allotment contract and refund of money with interest, provided action is initiated within a reasonable time before liquidation commences. Statutory defenses under Section 35(2) require proving that the director withdrew consent before issue, or that the prospectus was issued without their knowledge, or that they had reasonable grounds to believe the statement was true. In *Peek v. Gurney (1873)*, the House of Lords clarified that only original subscribers who purchased shares directly from the company relying on the prospectus can sue; open-market purchasers cannot maintain an action unless fraud was intended to induce secondary buyers (as in *Andrews v. Mockford*).
2. **Criminal Liability (Section 34 & Section 447):** Every person authorizing the issue of a prospectus containing untrue, deceptive, or misleading statements is criminally liable for corporate fraud under Section 447. Penalties entail mandatory imprisonment for a term between 6 months and 10 years, and a fine not less than the amount involved in the fraud, extending up to three times that amount. Where the fraud involves public interest, minimum imprisonment is 3 years.

6. Capital Market Compliance, Underwriting, and Allotment Governance

In contemporary corporate financing, the issuance of securities to the public intersects company law with capital market regulations governed by the Securities and Exchange Board of India (SEBI). A public company raising equity or debt capital must navigate synchronized compliance regimes that protect investor wealth and ensure transparency.

Statutory Framework for Underwriting of Capital Issues

Underwriting represents an institutional insurance contract whereby financial intermediaries (merchant bankers, commercial banks, or institutional brokers) agree to subscribe to shares or debentures that remain unsubscribed by the investing public, guaranteeing that the issuer achieves the mandatory 90% minimum subscription threshold. Under Section 40(6) of the Companies Act 2013 read with the Companies (Prospectus and Allotment of Securities) Rules 2014, the payment of underwriting commission is subject to strict statutory limits:

- **Authority in Articles:** The payment of commission must be expressly authorized by the company's Articles of Association.
- **Commission Ceilings:** In the case of equity shares, the commission cannot exceed 5% of the issue price of the shares, or the rate authorized by the Articles, whichever is less. In the case of debentures, commission cannot exceed 2.5% of the issue price, or the rate authorized in the Articles, whichever is less.
- **Disclosure in Prospectus:** The prospectus must disclose the names of underwriters, the rates and amounts of commission payable, and the net quantity of securities underwritten.
- **Prohibition on Unoffered Securities:** No underwriting commission can be paid on shares or debentures not offered to the public for subscription, preventing directors from siphoning corporate capital through fictitious commissions.

The Green Shoe Option and Post-Listing Price Stabilization

To mitigate excessive post-listing price volatility, companies often incorporate a **Green Shoe Option** (over-allotment option) under SEBI (ICDR) Regulations. The company enters into a lending agreement with pre-issue promoters to borrow up to 15% of the total issue size in equity shares. The stabilizing agent (merchant banker) sells these borrowed shares to public bidders during the initial public offering. If the market price falls below the issue price upon listing, the stabilizing agent buys shares from the open market using the escrowed over-allocation funds, injecting demand and stabilizing market valuation. If the market price trades above the issue price, the company issues fresh equity shares up to 15% to return the borrowed shares to promoters.

Minimum Public Shareholding and Listing Obligations (SCRR Rule 19A)

Under Rule 19A of the Securities Contracts (Regulation) Rules 1957, every listed company must achieve and maintain a minimum continuous **Public Shareholding of 25%** within three years of listing. Failure to comply exposes the company and its controlling promoters to punitive trading freezes, compulsory delisting, and regulatory fines under SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015. This rule prevents promoter monopolies, expands secondary market liquidity, and ensures democratic capital ownership across public stock exchanges.

Irregular Allotment versus Void Allotment: Statutory Remedies

Company law maintains a vital distinction between an irregular allotment and a completely void allotment:

1. **Void Allotment:** An allotment made without receiving the statutory 90% minimum subscription (Section 39), or an allotment of shares to minors without legal guardian intervention, or an allotment violating statutory prohibitions is void ab initio. The contract never comes into legal existence, and the subscriber is entitled to an immediate refund of application money with 15% annual interest.
2. **Irregular Allotment:** An allotment made in breach of internal administrative rules or minor statutory filing deadlines is voidable at the option of the subscriber. Under established jurisprudence, the allottee must exercise their option to rescind the allotment within two months

after the statutory meeting, or where no statutory meeting is held, within two months of the allotment date. Once the company goes into active liquidation, the right of repudiation is extinguished, and the shareholder remains liable as a contributory.

Modes of Corporate Equity Capital Expansion

Issuance Mode	Governing Section	Target Investor Group	Key Statutory & SEBI Requirements
Public Issue (IPO / FPO)	Section 23 & SEBI ICDR	General Public	Mandatory prospectus, 90% minimum subscription, book-building price discovery.
Rights Issue	Section 62(1)(a)	Existing Equity Shareholders	Offered in proportion to paid-up capital; right of renunciation to third parties.
Bonus Issue	Section 63	Existing Equity Shareholders	Capitalization of reserves; no cash paid; cannot be issued in lieu of dividend.
Preferential Allotment	Section 62(1)(c)	Select Strategic Investors	Special Resolution, valuation report by registered valuer, 1-3 year lock-in.
Private Placement	Section 42	Identified Group (Max 200)	Form PAS-4 offer letter, bank transfers only, allotment within 60 days.

Unpublished Price Sensitive Information (UPSI) and Disclosure Integrity

Corporate transparency surrounding securities issues is fortified by the SEBI (Prohibition of Insider Trading) Regulations 2015. **Unpublished Price Sensitive Information (UPSI)** encompasses any information relating directly or indirectly to a company or its securities that is not generally available, which upon becoming available is likely to materially affect securities prices. UPSI includes financial results, dividend declarations, changes in capital structure, mergers, demergers, acquisitions, delistings, expansions, and changes in Key Managerial Personnel (KMP).

Directors, promoters, auditors, and designated employees possessing UPSI are strictly prohibited from trading securities during **Trading Window Closures** (which commence from the end of each financial quarter until 48 hours after the public announcement of financial results). Violations attract civil disgorgement orders and criminal penalties up to ₹25 Crore or three times the unlawful profit made under Section 15G of the SEBI Act 1992.

The Golden Rule of Prospectus: Judicial Foundations in Kindersley's Dictum

The principle governing disclosures in a prospectus is universally known in corporate jurisprudence as the **Golden Rule of Prospectus**, formulated by Vice-Chancellor Kindersley in the historic English case *New Brunswick and Canada Railway Co. v. Muggeridge (1860)*:

"Those who issue a prospectus holding out to the public the great advantages which will accrue to persons who will take shares in a proposed undertaking, and inviting them to take shares on the faith of the representations therein contained, are bound to state everything with strict and scrupulous accuracy, and not only to abstain from stating as fact that which is not so, but to omit no

one fact within their knowledge the existence of which might in any degree affect the nature, or extent, or quality of the privileges and advantages which the prospectus holds out as inducements to take shares."

This golden rule establishes that suppression of a material fact (suppressio veri) is as fatal as the positive assertion of an untruth (suggestio falsi). In *Rex v. Kylsant (1932)*, the Royal Mail Steam Packet Co. issued a debenture prospectus stating that the company had paid continuous dividends for years, creating an impression of stable financial prosperity. The prospectus concealed the critical reality that current commercial operations were generating massive trading losses and dividends were being paid entirely out of undisclosed wartime secret reserves. Lord Kylsant, the chairman, was convicted of criminal fraud because the document, although literally true in individual statements, produced a completely false and deceptive whole.

Statutory Registration of Charges (Sections 77 to 87)

Whenever a company issues secured debentures or borrows from financial institutions against corporate assets, it creates a **Charge** under Section 2(16) of the Act, which represents an encumbrance created on corporate property or assets as security. Charges must be registered with the ROC in **Form CHG-1** (for assets other than debentures) or **Form CHG-9** (for debentures) within 30 days of creation. If not registered within 30 days, the ROC may allow extension up to 60 days on payment of additional fees. A charge not registered is completely void against the liquidator and corporate creditors upon winding up, relegating the secured lender to unsecured status.

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