RASLAN·LOONG

A Tidier Balance Sheet

By: Caesar Loong with Raslan Loong Advocates & Solicitors.

One feature of the new Companies Bill 2015 is the adoption of a no par value capital regime for shares in line with modern company accounting and practice. Under the current legislative framework, all companies limited by shares are required to have nominal share capital expressed as a par or face value per share, and an authorised share capital. The authorised share capital sets the ceiling amount of capital which a company is authorised to raise by issuing shares. Any increase of the authorised share capital must be approved by the shareholders. Where a share is issued at any amount less than the par value this constitutes a discount, whereas any amount higher than the par value constitutes a premium – an amount accounted for in the share premium account. Under the existing Companies Act 1965, there are restrictions on how a company can deal with share premium and the method for which it is accounted.

The par value of shares is often misleading as it rarely reflects the real value of shares and in turn, a company.

Upon the enforcement of the Bill, all shares, whether issued before or after the date of its commencement, will cease to have any par value as per section 74. This change also necessitates the parallel abolition of share premium, capital redemption reserve, and the requirement for authorised capital.

Section 618 of the Bill provides transitory provisions relating to the abolition of nominal value. Upon the commencement of section 74, any amount standing to the credit of a company's share premium account and capital redemption reserve shall become part of the company's share capital. When the Bill comes into effect, the full proceeds of any share issue will be credited to a single share capital account. Consequently, company accounting will become more transparent and easier to understand.

As a result of this change, companies will be afforded greater flexibility to alter their share capital. For example, a company could capitalise its profits without issuing new shares, and issue bonus shares without increasing its share capital. The need for a capital reduction when the capital of a company falls below the aggregate par value of issued shares also becomes unnecessary when the value of shares reflect the true value of the company. The issue price of a share will simply be the subject of commercial bargaining between willing buyer and willing seller or a justifiable valuation of the company.