Golden Rule of Framing a Prospectus

Introduction

A corporation issues a prospectus to entice the general public to buy its stock; interested parties rely on the information offered in the prospectus to decide whether or not to invest in the issuing company's stock. The public is invited to invest in the company based on the prospectus' statements. The general population is at the mercy of corporate executives. A prospectus is defined "as any document described or issued as a prospectus and includes any notice, circular, advertisement, or other document inviting deposits or offers from the public for the subscription or purchase of any shares in, or debentures of shares or debentures of, a body corporate" according to section 2(36) of the Company Act 2013.

Rules for the prospectus of a company:

- The prospectus must be a true representation of the company's profile; there must be no misleading, confusing, or incorrect references to the firm in the prospectus; and every significant feature of the company's contract should be clarified.
- The contents of the prospectus must comply with the Companies Act, and the restrictions on the selection of directors must be taken into consideration.
- The terms of civil liability must have been strictly followed when issuing and registering prospectuses, or where there is a legal obligation for issuing prospectuses.

Liability for Untrue Information:

The persons liable for an untrue statement in the prospectus under Section 62 of companies act 2013 are;

- Director – anyone who is a director of the firm at the time the prospectus is issued;
- Proposed Director – somebody who has given himself permission to be a director, either immediately or after a period of time;
- Promoter – each and every one of the company's promoters;
- Authorized person – everyone who has given their permission for the prospectus to be issued.

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Cases & Example:

a) New Brunswick & Canada Rly. & Land Co. v. Muggeridge (1860)

Those that produce a prospectus promise the public significant benefits that will accrue to those who invest in the planned venture. The public is solicited to purchase shares on the basis of the prospectus' representations. The general population is at the mercy of corporate executives. As a result, everything must be described with meticulous precision. Nothing should be stated as fact that is not true, and nothing should be omitted that would in any way impact the nature or quality of the principles and benefits offered in the prospectus as an inducement to buy stock. To put it another way, the genuine nature of the company's venture should be revealed.

b) Rex v. Kylsant (1932)

The prospectus indicated that dividends of 5 to 8% have been paid on a consistent basis for a long time. The truth was that the corporation had been losing money for seven years prior to the publication of the Prospectus, and dividends were paid out of the realised capital profit. The prospectus, it was held, was false and misleading. Though correct in and of itself, the statement was rendered untrue in the context in which it was spoken.

Conclusion:

The persons issuing the prospectus must not only include all of the relevant particulars specified in the Company Act that are required to be stated compulsorily in the prospectus, but they should also voluntarily disclose any other information in their knowledge that might in any way affect the prospective investor's decision to invest in the company.

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