

SHARE STRUCTURES

Share Capital Reorganisations: Subdivision, Consolidation and Reduction

How companies subdivide, consolidate and reduce share capital, including the solvency statement route for private companies.

Why companies reorganise share capital

Share capital often needs to change as a business matures. A company may want more shares to give flexibility on an option scheme or an investment, fewer shares to simplify the register, or a smaller capital base to create distributable reserves before a sale or a dividend. The route depends on the change wanted. Each route has its own approvals and filings, and the directors carry responsibility for getting them right.

Subdivision and consolidation

Subdivision divides existing shares into a greater number of smaller shares, so a £1 share becomes ten shares of 10p. **Consolidation** does the opposite, combining shares into fewer shares of higher nominal value. Neither changes the total amount of capital or the proportion each member holds, although the number of shares and the nominal value per share change.

Subdivision is common before a company issues options or growth shares, so that nominal values allow a sensible price per share. Consolidation can simplify a register of many small holdings before a sale.

Under section 618 of the Companies Act 2006, a company limited by shares may do this if its articles allow it, by ordinary resolution unless the articles say otherwise. The proportion between paid-up and unpaid amounts on each new share must stay the same as before. Fractions can arise on a consolidation, and the resolution or articles should say how they are to be dealt with.

The company notifies Companies House within one month on form **SH02**, with an updated statement of capital (s.619). The register of members and any share certificates then need updating.

Redenomination in outline

A company can change the currency in which its shares are denominated by ordinary resolution (ss.622 to 628), and notify Companies House on form **SH14**. A related reduction, to round the nominal values, uses form **SH15**. It is used less often than the other changes and usually in groups with international owners.

Key points

- Subdivision and consolidation change the number of shares, not the value of the capital.
- A reduction of capital does reduce it, and creditors' interests are the concern.
- Private companies can reduce capital by special resolution supported by a directors' solvency statement.
- Court approval is the alternative, and is slower and more costly.
- Directors who make a solvency statement without reasonable grounds commit an offence.
- Check the articles first. They may limit or authorise each route.

Reduction of capital by solvency statement

A private limited company can reduce its share capital by special resolution, supported by a solvency statement from the directors (ss.641(1)(a) and 642 to 644). This is the usual route because it avoids a court application. The process runs in this order:

1. The directors make a solvency statement no more than 15 days before the resolution is passed. Each director confirms that, having made full enquiries, they believe the company has no grounds on which it could be found unable to pay its debts and will be able to pay them for the next 12 months (or in a winding-up that begins within 12 months, in full within 12 months of its start).
2. Members pass a special resolution, within the 15-day window, to reduce capital. The solvency statement is made available to members.
3. The company files with Companies House within 15 days of the resolution: the resolution, the solvency statement (form **SH20**) and a statement of capital (form **SH19**).

The reduction takes effect when Companies House registers these documents. The company cannot use the route to leave itself with no non-redeemable shares in issue.

Court-approved reduction

A company can instead apply to the court under sections 645 to 649. The court may require creditor protection, such as a meeting or notice to creditors. It is more expensive and slower, but may be preferred where a solvency statement cannot be given, or where the structure needs the court's confirmation. Public companies must use this route.

Common uses

- Creating distributable reserves before a dividend or a share buy-back.
- Clearing a negative reserve so that distributions can be made.
- Returning capital to members before a sale.
- Tidying a capital structure with unusual or legacy classes.

How a reduction is treated for tax and for distributable reserves depends on the facts. The tax and accounting advice should be taken before the resolutions are passed.

Directors' responsibilities

Directors should record why they believe the company will remain solvent, with forecasts and creditor information on file. Minutes should record the decision, the information considered and the date of each step. A statement made without reasonable grounds is an offence, and every director who knew it lacked such grounds can be liable (s.643).

Before you file

- Do the articles authorise the change?
- Which route fits: subdivision, consolidation, redenomination or reduction?
- Is the directors' solvency statement made within the 15-day window?
- Is the resolution the right type and passed by the right majority?
- Do any shareholders' agreements or investor consents restrict it?
- Are forecasts and creditor information on file?
- Which of SH02, SH19 and SH20 applies?

How MTM can help

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We prepare the directors' solvency statements, resolutions and minutes, file SH02, SH19 and SH20, and update the register of members and the statement of capital. For a practice, we can do this in your name and report back to you. The tax and distributable reserves analysis stays with your client's accountants.