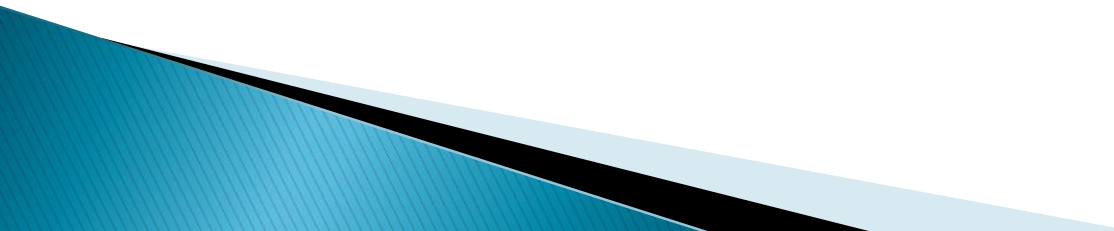


**SOS POLITICAL SCIENCE AND  
PUBLIC ADMINISTRATION  
MBA HRD 201  
SUBJECT NAME: FUNCTIONAL  
MANAGEMENT**

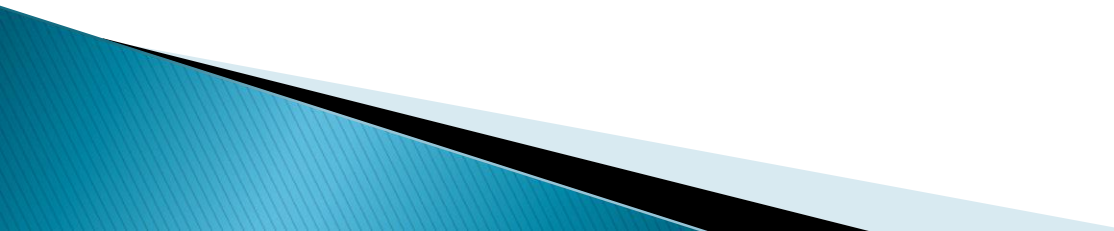
**TOPIC NAME: PROSPECTUS**

# MEANING OF PROSPECTUS

- ▶ A prospectus is a formal document that is required by and filed with the Securities and Exchange Commission (SEC) that provides details about an investment offering to the public. A prospectus is filed for offerings of stocks, bonds, and mutual funds. The document can help investors make more informed investment decisions because it contains a host of relevant information about the investment security.
- 

- ▶ Sec. 2(36) of the Companies Act describes a prospectus as “any document issued as a prospectus and includes any notice, circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any share in, or debentures of a body corporate.”

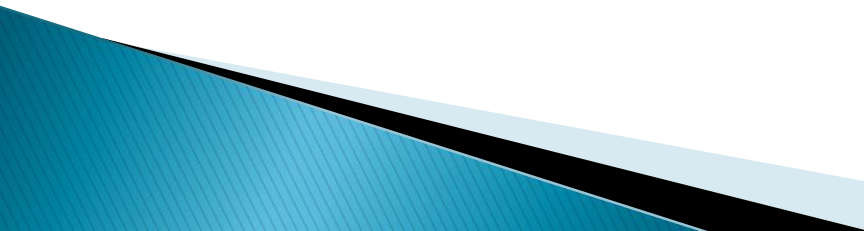
# THE CHARACTERISTICS OF THE PROSPECTUS ARE:

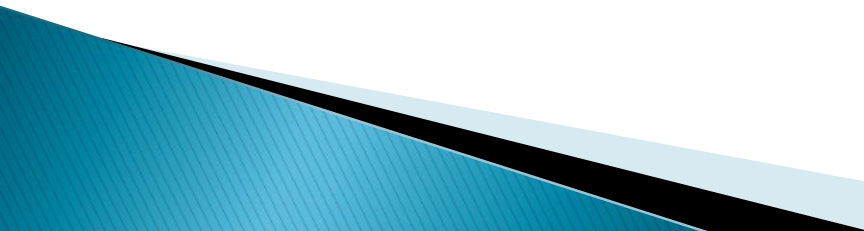
- ▶ It is a document issued as a prospectus.
  - ▶ It is an invitation to the member of the public.
  - ▶ The public is invited to subscribe to the shares or debentures of the company.
  - ▶ It includes any notice, circular, advertisement inviting deposits from the public.
  - ▶ It is a document by which the company procures its share capital needed to carry on its activities.
- 

# FORMS AND CONTENTS OF THE PROSPECTUS:

- ▶ Sec. 56 states that every prospectus must
  - i. State the matters specified in Part I of Schedule II, and
  - ii. Set out the reports specified in Part II of Schedule II.

# **PART I OF SCHEDULE II— MATTERS TO BE SPECIFIED:**

- (a) The contents of the Memorandum.
  - (b) The qualification shares of the Directors.
  - (c) No. of redeemable preference shares.
  - (d) Remuneration of the Directors and Promoters.
  - (e) The names, descriptions and addresses of the Directors and Managing Directors.
  - (f) The Minimum Subscription.
  - (g) Time of opening.
  - (h) Names and Addresses.
  - (i) Underwriting Commission, Brokerage etc.
- 

- (j) Names of the auditors with their addresses.
  - (k) Particular of Contracts.
  - (l) Preliminary Expenses.
  - (m) Particulars of Directors.
  - (n) Disclosure.
  - (o) Expected rate of dividend and voting rights.
  - (p) Capitalization of Profits and Surplus from revaluation of assets.
  - (q) Inspection of Balance Sheet and Profit and Loss Account.
- 

# **PART II OF SCHEDULE II— REPORTS TO BE SET OUT:**

## **(a) Report by the Auditor:**

**An audit report of the company relating to:**

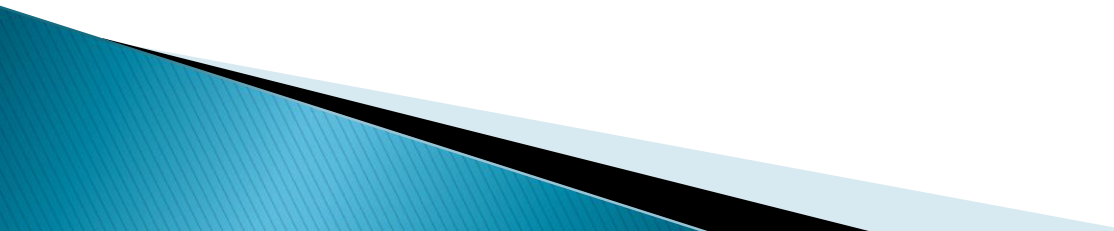
- (i) Its profits and losses, assets and liabilities,
- (ii) The dividend paid by the company during the five financial years preceding the issue of prospectus should also be furnished.

## **(b) Report by the Accountant:**

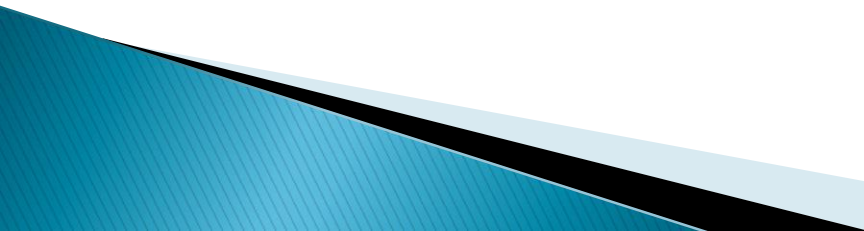
The accountant should also state a report relating to profits or losses and assets and liabilities on a date which must not be more than 120 days before the date of issue of the prospectus.

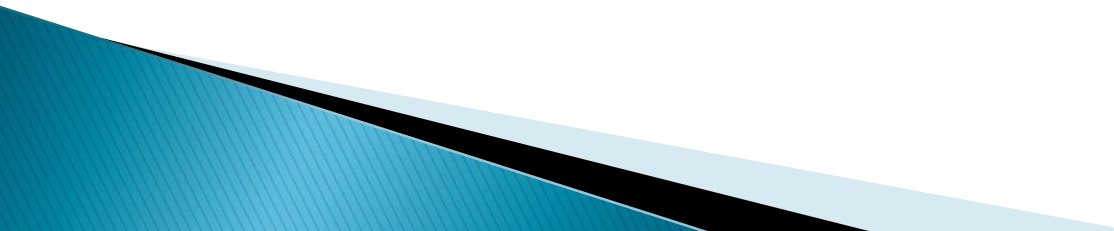


# TYPES OF PROSPECTUS:

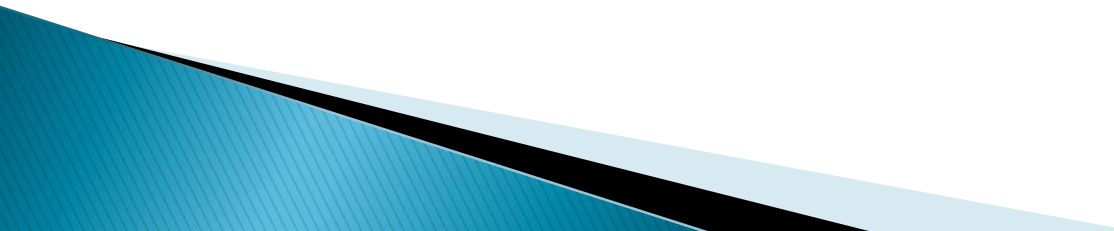
- ▶ Red Herring Prospectus.
  - ▶ Shelf Prospectus.
  - ▶ Abridged prospectus.
  - ▶ Deemed Prospectus.
- 

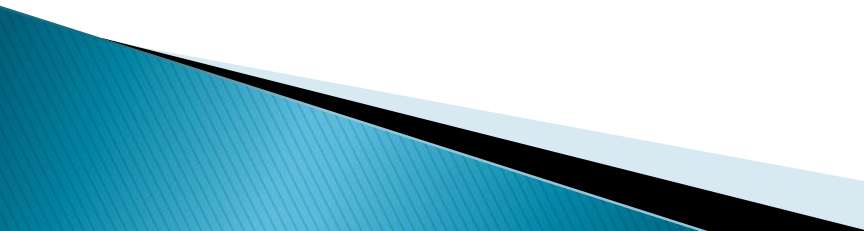
# HOW A PROSPECTUS WORKS:

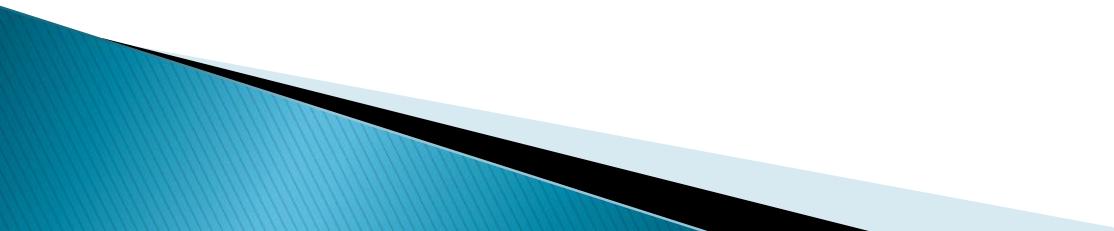
- ▶ Companies that wish to offer bond or stock for sale to the public must file a prospectus with the Securities and Exchange Commission as part of the registration process. Companies must file a preliminary and final prospectus, and the SEC has specific guidelines as to what's listed in the prospectus for various securities.
  - ▶ The preliminary prospectus is the first offering document provided by a security issuer and includes most of the details of the business and transaction. However, the preliminary prospectus doesn't contain the number of shares to be issued or price information. Typically, the preliminary prospectus is used to gauge interest in the market for the security being proposed.
- 

- ▶ The final prospectus contains the complete details of the investment offering to the public. The final prospectus includes any finalized background information, as well as the number of shares or certificates to be issued and the offering price.
  - ▶ A prospectus includes some of the following information:
    - ▶ A brief summary of the company's background and financial information
    - ▶ The name of the company issuing the stock
    - ▶ The number of shares
    - ▶ Type of securities being offered
    - ▶ Whether an offering is public or private
    - ▶ Names of the company's principals
    - ▶ Names of the banks or financial companies performing the underwriting
    - ▶ Some companies are allowed to file an abridged prospectus, which is a document that contains some of the same information as the final prospectus.
- 

# EXAMPLES OF PROSPECTUSES:

- ▶ In the case of mutual funds, a prospectus contains details on the fund's objectives, investment strategies, risks, performance, distribution policy, fees, expenses, and fund management. Because the fees that mutual funds charge take away from investors' returns, the fees are listed in a table near the beginning of the prospectus. Fees for purchases, sales, and moving among funds are also included, which simplifies the process of comparing the costs of various mutual funds.
- 

- ▶ As an example of a prospectus for an offering, PNC Financial (PNC) filed a prospectus with the Securities and Exchange Commission in 2019 requesting a new issuance of debt. The senior note being offered to the public is a bond or a promissory note to pay a specific yield by maturity.
  - ▶ For review, senior notes are debt securities, or bonds, that take precedence over other unsecured notes in the event of bankruptcy. Senior notes must be paid first if assets are available in the event of company liquidation. A senior note pays a lower coupon rate of interest compared to junior unsecured bonds since the senior debt has a higher level of security and a reduced risk of default.
- 

- ▶ Below is a portion of the prospectus from the table of contents, which provides basic information about the offering. We can see the following information listed:
  - ▶ Securities offered, which are senior notes that pay 3.50%
  - ▶ The maturity date of the notes, which is Jan. 23, 2024
  - ▶ The issue date, which has yet to be determined
  - ▶ How interest will be paid and denominations to be issued
  - ▶ Use of proceeds or how the money raised will be spent, which might include financing operations, paying down debt, or buying back stock.
- 

# SPECIAL CONSIDERATIONS:

- ▶ Another reason a prospectus is issued is to inform investors of the risks involved with investing in the security or fund. Although a company might be raising capital through stock or bond issuance, investors should study the financials of the company to ensure the company is financially viable enough to honor its commitments.
  - ▶ Risks are typically disclosed early in the prospectus and described in more detail later. The age of the company, management experience, management's involvement in the business, and capitalization of the stock issuer are also described. The prospectus information also guards the issuing company against claims that pertinent information was not fully disclosed.
- 