

SHAREHOLDER AGREEMENTS

The definition of a shareholder agreements

A shareholder agreement provides for the regulation of a business agreement between two or more shareholders of a company.

The benefits of a shareholder agreement

A shareholder agreement provides for certainty and security between the shareholders of a company and regulates the dealings between the shareholders. It is generally drafted with regards to the company's individual requirements and circumstances.

Although not required by the *Corporations Act 2001* (Cth), such an agreement is useful to set the rules by which shareholders (and the company) come together, run the company, set out how the respective parties deal with each other and also regulate the exiting from the relationship. A well drafted shareholder agreement should provide specific mechanisms to also handle disputes between shareholders.

Potential terms of a shareholders agreement

As previously mentioned, the terms of shareholder agreements vary between different company structures and depend on the individual circumstances of a company. The following are general terms that can be provided for under a shareholders agreement;

- The role the shareholders hold in the company and the duties they are to undertake;
- The provisions for establishing a system to handle the company accounts;
- Provisions establishing the mechanisms for the transfer of shares;
 - The provisions relating to the situations where a shareholder can transfer shares in the company;
 - The restrictions of the transferring of shares to another individual.
 - Provisions defining the mechanisms by which a shareholder is able to exit from the company;
 - The process that is to take place in the event of death or serious illness of a shareholder; and
- The procedures for resolving disputes between shareholders.

The importance of establishing a shareholders agreement

When entering into a business arrangement with other individuals it can be difficult to foresee the potential issues that can arise. A shareholders agreement acts to regulate these unforeseeable circumstances in an effort to ensure the effective running of the company and eliminate any misunderstanding as to the duties required by an individual shareholder.

The establishment of provisions that regulate how a shareholder can enter and exit the company and the mechanisms for resolving disputes that arise act to protect shareholders interests in the company and assist those shareholders in the effective management of their company.

Legal Advice

Entering into such a legal agreement requires specialist advice and drafting in order to ensure the company is acting in accordance with the law.

Lyttletons Lawyers is experienced in this area of legal agreements and can provide specialist advice and drafting of such an agreement relevant to the specific circumstances of your company.

If you are considering entering into such an agreement please do not hesitate to contact our office.

Melissa Gibson
Lyttletons Lawyers