Description for the general public

The proposed research is part of a discussion on the method of protecting creditors and society against the fraudulent behaving of shareholders after their exemption from liability for company debts which began in the nineteenth century. This exemption, which was initiated in 1811 in the State of New York and quickly spread throughout the industrialized world, was of crucial importance for the development of enterprises. Without this exemption the public sale of shares encountered public resistance because of rising the fear of obligations of companies. Although the release of the shareholders from the liabilities of the company was a milestone in the development of companies, however, it quickly revealed new areas for fraud and abuses. Companies began selling to the public stocks that were not reflected in assets. They were called watered stock because they were issued against water and not against assets. Consequently, the United States began to institute laws against these practices, which were called Blue-Sky Laws, because it was intended to stop stock issues that, apart from a fraction of the blue sky, offered nothing to shareholders. One of the most enduring achievements of this law is the par value regime that was introduced to protect buyers and lenders. It consists in attributing for each share a value that represents cash or assets contributed by shareholders and reflects the extent of their liability for liabilities. Shares cannot be sold below the par value and the capital accumulated in this way (Share capital) cannot be redistributed during the existence of the company. Share capital is the first of legal capital because it reflects the capital that companies have to maintain in order to secure creditors' claims. Although the concept of par value has been criticized since its birth, however, it has become the cornerstone of company law in many countries and still occurs among others in Polish Accounting Standards (KSR). It is alleged that legal capital is not effective in the protection of lenders and other stakeholders against fraudulent shareholder behavior because it does not reflect the actual market value of the asset, which is constantly changing. So there is a very poor guarantee of securing claims. The need to maintain it limits the company's flexibility of financing. The shareholders have a whole range of opportunities to wreck assets to take over wealth to the detriment of lenders (for example, by setting up excessive wages). On the other hand, advocates of legal capital argue that legal capital is the best protection for the interests of lenders who cannot protect their interests by covenants who are called non-contractual creditors. The amount of legal capital is a signal for capital markets and lenders about the degree of involvement of shareholders in a company and influences the decisions regarding the capital structure.

Therefore, the main objectives of the project are:

1. Analysis of the impact of legal capital on valuation new issuance.
2. Analysis of the impact of the par value on behavioral biases made by investors leading to old shareholders taking over of the rights to capital contributed by the new shareholders.
3. Analysis of the impact of legal capital on the capital structure of a company.
4. Analysis of the impact of legal capital on company efficiency.