Jus Corpus Law Journal
Open Access Law Journal – Copyright © 2022 – ISSN 2582-7820
Editor-in-Chief – Prof. (Dr.) Rishikesh Dave; Publisher – Ayush Pandey

The Doctrine of Constructive Notice and Indoor Management: A Critical Analysis

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Received 06 October 2022; *Accepted* 14 October 2022; *Published* 24 October 2022

A company that was established under this act or a previous company law is referred to as a company under Section 2 (20)[1] of the Companies Act of 2013. A corporation is protected from outsiders and conversely by a specific set of rules and principles. Since corporations are crucial to the advancement of the economy, regulations governing them must be devised. These rules serve as a deterrent to deter unjust and unethical business activities. Relevant Company Law principles include the doctrines of constructive notice and indoor management. The two are complementary to one another since the former defends the business from outsiders' acts and the latter defends outsiders from the company's actions.

Keywords: *constructive notice, companies act, corporation, doctrine.*

DOCTRINE OF CONSTRUCTIVE NOTICE

The documents that outline the goals and authority of a company are the memorandum and articles of association. After being registered with the Registrar of Companies, the memorandum

[1] Companies Act 2013, s 2(20)

and articles become public records, according to Section 399[2] of the Act. They are available for everyone to view, either for free or for a nominal fee. Anyone who wishes to get into a contract with the company can find out what the firm's capabilities are and what proportion of them have been granted to the directors. According to the ruling in **Oakbank Oil Co. v Crum**[3], anyone who deals with the company is expected to already have viewed the articles and memorandum and comprehended them entirely. This is called the constructive notice doctrine. The doctrine is a fiction, legal in nature; that holds someone accountable for knowing any information about the company that is in the public realm.

EFFECTS OF THE DOCTRINE OF CONSTRUCTIVE NOTICE

It is ultra vires for any person to agree with a corporation that is not authorized by the memorandum, and the corporation cannot be held responsible for the same. Correspondingly, if a deed on the behest of the company is signed by one of the three officials listed in the articles but not the others, the deed is not legitimate. In **Kotla Venkataswamy v Chinta Ramamurthy**[4], only the working director and the secretary signed a mortgage deed. According to the court, such a contract would not give rise to any claims. The mortgage deed was declared illegal. Before making the loan, the mortgagee ought to have examined the articles. The doctrine thus acts against anyone doing business with the organization from the outside. Although the principle of constructive notice shields the corporation from outsiders, it has proven to be exceedingly cumbersome for commercial transactions. The facts of life are not taken into consideration. The provision may occasionally be ambiguous and susceptible to a company policy. When the doctrine is applied in this situation, people will be treated unfairly. Thus, as an exception, the Indoor Management doctrine was designed to alleviate such a predicament.

DOCTRINE OF INDOOR MANAGEMENT

According to the indoor management doctrine, if anyone appears to be conducting the company's activities such that it is entirely consistent with its articles of association, then the

[2] Companies Act 2013, s 399
[3] *Oakbank Oil Co. v Crum* [1882] 8 AC 65
[4] *Kotla Venkataswamy v Chinta Ramamurthy* [1934] AIR 579 (Mad.)

people engaging with that person won't be affected by any discrepancies that may have occurred in the internal affairs of the corporation. Except for the memorandum and articles of association, it is not the obligation of a third person to investigate the internal operations of the firm. The doctrine of indoor management, to put it simply, asserts that a company's indoor activities are its responsibility.

Turquand's Rule is another name for this doctrine, which has its origins in the famous **Turquand v Royal British Bank**[5] case. In this instance, the company's bylaws gave its directors the authority to borrow any amount of money they needed by proposing a special resolution in support of it at the formal meeting of the corporation. The corporation took the money in the absence of having the necessary resolution approved, thus it refused to pay the bank back. The corporation submitted a bond bearing its seal, signed by two directors and the secretary, and provided to the bank as the necessary authorization letter. According to the company, the bank was unable to enquire about the resolution's approval because it was an internal concern. When they received the necessary paperwork to demonstrate their consent, it forwarded the loan. The bond was declared binding on the corporation by the Court of Exchequer Chamber. It was decided that Turquand had a right to believe that the corporation had approved the relevant resolution because they had shown them the bond. Turquand was consequently permitted to get the money back. Although the principle had previously been applied in various ways to various situations, this was the first occurrence in which it was formally established. The doctrine is rooted in commercial convenience, as a business can't proceed if every person who engages with a company must carefully review its internal dynamics to confirm that the officials with whom he interacts possess the necessary authority. The doctrine is both fair and practical. It has a plethora of real-world applications. It is built on the estoppel principle.

RELEVANT CASE LAWS

Turquand's rule was employed in **Varkey Souriar v Keraleeya Banking Co. Ltd**[6]. by the court. Based on the verdict, a person doing business with the corporation need not ask about that

[5] *Royal British Bank v Turquand* [1856] 119 ER 886
[6] *Varkey Souriar v Keraleeya Banking Co. Ltd* [1957] 27 Comp Cas 391

company's internal operations to fulfill a duty that might have been placed on them by a public document or otherwise. All that is required of them is that they establish the legitimacy of the individual doing the transaction.

In **Freeman and Lockyer v Buckhurst Park Properties Ltd**.[7], the court decided that although a Managing Director had never been officially appointed, the company was nonetheless obligated by the conduct of a person who claimed to operate on its behalf. It is widely accepted that everyone who engages with a company is subject to its articles of association and memorandum and therefore is immune from any inconsistencies that may occur in its operation. Under the 2013 Companies Act, there is no specific clause addressing the indoor management doctrine. However, the Indian courts have acknowledged this concept in multiple cases and it is now accepted here.

The doctrine has been used by Indian courts in judgments like **Dewan Singh Hira Singh v Minerva Mills Ltd[8].** In this case, the company's articles only gave the directors authority to distribute 5,000 shares. But they distributed more than 13,000 shares. According to the Court, those who acquired shares were doing business with due diligence and had a right to believe that the directors' conduct in allocating the shares to them was within the limits of the rights conferred to them by the company's shareholders. They were not mandated to investigate whether the directors' acts relating to internal management had been carried out effectively and consistently.

EXCEPTIONS TO THE DOCTRINE OF INDOOR MANAGEMENT

It is crucial to broaden the scope of this doctrine because, if it remains narrow and exclusively in favour of the company's outsiders, it places the company at significant risk. Companies these days have taken a prominent role in economic and social life in contemporary communities. In the present day, there are several exceptions to the doctrine, including the following:

[7] *Freeman and Lockyer v Buckhurst Park Properties Ltd.* [1964] 1 All E.R. 630
[8] *Dewan Singh Hira Singh v Minerva Mills Ltd.* [1959] AIR 106 (PH)

Awareness of Irregularity: In situations where the impacted individual has real or constructive knowledge of the irregularity, the rule would not apply. By the articles of the company in **Howard v Patent Ivory Manufacturing Company**[9], the directors were permitted to take 1,000 pounds. Without the proposal being approved, the directors misappropriated 3,500 pounds from a director who had purchased debentures. As a result of the decision, the company's liability was limited to £1,000. The directors couldn't assert Turquand's rule protection because they were mindful that the resolution had not been adopted.

Suspicion of Irregularity: Anyone doing business with the corporation should conduct further research if they have any suspicions regarding a contract's surrounding circumstances. He cannot rely on this rule if he chooses not to inquire. The plaintiff in **Anand Bihari Lal v Dinshaw & Co**[10]**.** accepted a property transfer from the auditor. To prove the authenticity of the accountant, the plaintiff should have sought a copy of the power of attorney, the court decided. As a result, the transfer was rendered void.

Forgery: Except forgery, the idea of indoor management extends to irregularities that impact a transaction. The transaction is treated as null and invalid in the event of a counterfeit.

An act outside the apparent authority: The plaintiff cannot rely on this doctrine to protect them if a corporate executive acts in a way that would typically be outside the scope of their authority. In certain situations, the party entering into a contract with such an officer is required to find out if the power has been assigned or not.

CONCLUSION

The Turquand case premise established the Common Law and ultimately led to the Doctrine of Indoor Management, which serves to reduce any potential inconvenience brought on by the doctrine of constructive notice. Companies are protected by the constructive notice doctrine while dealing with third parties. The company benefits from the formation of legal fiction since it facilitates a straightforward process. As a result, if an outsider is working with the company,

[9] *Howard v Patent Ivory Manufacturing Company* [1888] 38 Ch D 156
[10] *Anand Bihari Lal v Dinshaw & Co.* [1942] AIR 417 (Oudh)

it is his primary responsibility to be familiar with all the policies that are listed in the company's public documentation. This provision's credibility was eroding since it appeared to be doing more harm than benefit. Thus, the courts have limited the implementation of this rule where there is an internal disagreement by extending the Doctrine of Indoor Management. To sum up, it can be said that a company's mere registration should not be construed as a notice of the documents presented to the registrar. Additionally, a third party should always be permitted to make assumptions that a reasonable person could infer given the specifics of the situation.