

What is a Corporate Resolution?

What is a Corporate Resolution? Why are They Needed?

When a corporate board of directors (Board) wants to take action on a matter, whether it is authorizing a new bank account, financing a new project, or wanting the company to enter into a contract, the board will want to *resolve* to do it. The resolution is the formal written decision, where that decision came from a vote by the board. Many times you will see language in corporate minutes and similar that start off with “BE IT RESOLVED” or “RESOLVED THAT”. However, there is no one set of language all corporations use for their resolutions. The form and substance of resolutions may vary, but the main goal remains the same. For boards to properly document and record keep their actions. These documents are needed to hold boards accountable to government agencies, licensing boards, and regulators (such as the IRS). Further, boards have fiduciary responsibilities to the corporation and its shareholders. Owners want to keep their separation from corporate acts for limited liability purposes. Resolutions serve as items to maintain the separation and document decisions of boards. Is the board acting responsibly?

When Should Corporate Resolutions be Drafted?

The main goal for creating corporate resolutions is a record keeping function. It is to preserve information about what was the exact nature of the resolve to act, who offered it up, who moved it, and then who voted for it and the date of the meeting that the vote took place. Basically, what was the decision-making process. There are many actions that resolutions are used for. It could be for mergers or acquisitions, the purchase or sale of real estate, obtaining a bank loan, voting in new board members, the hiring of executives, authorizing an agent, issuing new shares, or amending the By-laws. Prior to having a corporate meeting it is best to review the Articles, By-laws, or applicable state law, prior meetings’ minutes and resolutions. As proper meeting preparation is key to corporate governance.

What is the Difference between Resolutions and Minutes?

Yes. A resolution is a written document that describes the action itself, whereas minutes describe discussions, actions, and resolutions that have passed during a Board meeting. The process generally is: (1) setting an agenda and notifying the Board’s members; (2) during the meeting the properly presented resolutions are brought up for discussion; (3) after discussion has concluded, then the Board votes; (3) the votes are recorded; and (4) finally, minutes are prepared, signed, including the status of the resolutions - were they approved (or not); and then (5) the documents are placed with the corporation’s records.

What Happens to Resolutions After They Are Passed?

The responsible director or officer, usually the secretary, files them with the corporate records, which includes the minutes. This organization of corporate records helps in case a government agency, like the IRS or a licensing board questions a corporate action – they would like to review the records in an audit process. Further, if there is a lawsuit by shareholders that the officers and directors made poor choices in the management of the company, then the resolutions could be used as evidence in such a suit. Therefore, good record keeping is not just documenting actions, but the decision-making related to the actions.

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