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TRANSACTIONS BETWEEN A COMPANY AND ITS DIRECTORS - INFORMATION FOR CLIENTS

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There are specific rules that apply to certain transactions between the company and its directors.

Directors' remuneration

The service contract (or service agreement) between the company and an employed director or a memorandum of its terms must be kept by the company and open to inspection by shareholders. Shareholder approval is required for contracts with a guaranteed term of more than two years.

Shareholder approval is required for a company to pay compensation to a director for loss of office. There are exceptions to this. These include payments made by the company to fulfil a legal obligation (e.g., payment in lieu of notice, where the director's service agreement provides for this).

Directors' loans, etc

With some exceptions, a company may not make a loan to its director (or to a director of its holding company) or give a guarantee or provide security in connection with a loan made by any person to that director without the prior approval by resolution of the shareholders of the company (and of the holding company where relevant). The resolution must be accompanied by a memorandum containing specified information concerning the transaction. Exceptions to these requirements for shareholder approval include:

- the provision by the company of funds to a director for expenditure on company business if the value of the transaction does not exceed £50,000; and
- loans or the provision of a guarantee or security for a loan if the value of the transaction does not exceed £10,000.



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Where the company enters into more than one such transaction with the director, there are provisions requiring it to aggregate the value of the transactions in calculating the relevant maximum value.

There are additional requirements for transactions with directors of public limited companies or companies associated with them.

Directors' asset transactions

Shareholders' prior approval is required for the acquisition or disposal of a substantial non-cash asset from or to a director or a person connected with the director; if not, the company is given various remedies, including reversing the transaction. Substantial non-cash assets are those which either (a) exceed 10% of the company's net asset value and are more than £5,000 or (b) exceed £100,000.

Indemnities and insurance for directors

A company cannot absolve a director from any liability for negligence, default, breach of duty or breach of trust in relation to the company. It may, however, indemnify the director against certain legal defence costs (if that defence is successful). A company can also purchase insurance for its directors against liability for negligence, default, breach of duty or breach of trust by them in relation to the company of which they are a director.

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For initial advice about Accounting and Taxation; call our team on 0203 488 7503, 01992 236 110 or contact us by email at welcome@walshwestcca.com or via our website www.walshwestcca.com and we will help you.