

*These notes refer to the Companies Act 2006 (c.46)
which received Royal Assent on 8 November 2006*

COMPANIES ACT 2006

EXPLANATORY NOTES

TERRITORIAL EXTENT AND DEVOLUTION

Chapter 2: General Duties of Directors

Relationship between the duties and the detailed rules requiring member approval of conflicts of interest

318. Under the provisions in Chapter 4 of this Part, the directors must sometimes obtain prior shareholder approval for the following types of transaction involving a director (or, in some cases, a person connected to a director): long-term service contracts; substantial property transactions; loans, quasi-loans and credit transactions; and payments for loss of office.
319. [Section 180](#) provides that:
- compliance with the general duties does not remove the need for member approval of such transactions (*subsection (3)*);
 - (subject to the exception set out in the bullet point below) the general duties apply even if the transaction also falls within Chapter 4 (because it is a long-term service contract, substantial property transaction, loan, quasi-loan, credit transaction or payment for loss of office). So, for example, the directors should only approve a loan to a director if they consider that it would promote the success of the company. This is so, even if the loan does not require the approval of members under Chapter 4 because it falls within a relevant exception, such as the exception for expenditure on company business in section 204;
 - if the transaction falls within Chapter 4 (because it is a long-term service contract, substantial property transaction, loan, quasi-loan, credit transaction or payment for loss of office) and approval of the members is obtained to the transaction in accordance with that Chapter, or an exception applies, so that approval is not necessary under that Chapter, then the director does not need to comply with the duty to avoid conflicts of interest (section 175) or the duty not to accept benefits from third parties (section 176) in respect of that transaction. All other applicable duties will still apply. For example, a director would not be acting in breach of the duty to avoid conflicts of interests if he failed to obtain authorisation from the directors or the members for a loan from the company in respect of legal defence costs. Section 181 modifies this provision for charitable companies in England and Wales and Northern Ireland.