

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

# COMPANIES ACT 2006

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## EXPLANATORY NOTES

### COMMENTARY

#### *Sections 197 to 214: Loans, quasi-loans and credit transactions*

404. In the case of a private company which is not associated with a public company, section 197 requires member approval for loans and related guarantees or security made by a company for:
- a director of the company; or
  - a director of its holding company.
405. In the case of a public company, or a private company associated with a public company, sections 197, 198, 200 and 201 require member approval for loans, quasi-loans (as defined in section 199), credit transactions (as defined in section 202) and related guarantees or security made by the company for:
- a director of the company; or
  - a director of its holding company;
  - a person connected with a director of the company; or
  - a person connected with a director of its holding company.
406. [Section 256](#) explains what is meant by references to associated companies. A holding company is associated with all its subsidiaries, and a subsidiary is associated with its holding company and all the other subsidiaries of its holding company.
407. Member approval is not required by these sections for:
- loans, quasi-loans, credit transactions and related guarantees or security to meet expenditure on company business. The total value of transactions under this exception made in respect of a director and any person connected to him must not exceed £50,000 (section 204);
  - money lent to fund a director's defence costs for legal proceedings in connection with any alleged negligence, default, breach of duty or breach of trust by him in relation to the company or an associated company (section 205) or in connection with regulatory action or investigation under the same circumstances (section 206);
  - small loans and quasi-loans, as long as the total value of such loans and quasi-loans made in respect of a director and any person connected to him does not exceed £10,000 (section 207(1));
  - small credit transactions, as long as the total value of such credit transactions made in respect of a director and any person connected to him does not exceed £15,000 (section 207(2));

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- credit transactions made in the ordinary course of the company's business (section 207(3));
- intra-group transactions (section 208); and
- loans and quasi-loans made by a money-lending company in the ordinary course of the company's business (as long as the requirements of section 209 are met).

408. These sections replace sections 330 to 341 of the 1985 Act. The changes include:

- abolishing the prohibition on loans, quasi-loans etc to directors and replacing it with a requirement for member approval. This implements a recommendation of the CLR;
- abolishing the criminal penalty for breach;
- replacing the concept of relevant company in section 331 of the 1985 Act with associated company, as defined in section 256;
- removing some of the requirements currently imposed by section 337 of the 1985 Act on the exception for expenditure on company business (section 204);
- widening the exception for expenditure on company business to include directors of the company's holding company and connected persons (section 204);
- creating a new exception specifically for expenditure in connection with regulatory action or investigations (section 206);
- restricting the exceptions for expenditure on defending legal or regulatory proceedings to proceedings in connection with any alleged negligence, default, breach of duty or breach of trust by the director in relation to the company or an associated company (sections 205 and 206);
- widening the exception for small loans to include small quasi-loans (section 207(1)) in place of the current exception for short-term small quasi-loans in section 332 of the 1985 Act;
- widening the exception for small loans and quasi-loans to include transactions with connected persons (section 207(1));
- widening the exception for "home loans" to include those connected persons who are employees (section 209(3));
- raising the maximum amounts permitted under the exception for expenditure on company business (section 204), the exception for small loans and small quasi-loans (section 207(1)) and the exception for small credit transactions (section 207(2));
- widening the exceptions for intra-group transactions (section 208);
- abolishing the maximum amounts permitted under the exception for money-lending companies (section 209); and
- allowing affirmation of loans, quasi-loans and credit transactions entered into by the company in line with the provision in respect of substantial property transactions (section 214).