

Contents

<i>Guide to the book</i>	<i>xi</i>
<i>Acknowledgments</i>	<i>xiii</i>
<i>Preface</i>	<i>xiv</i>
<i>Table of Cases</i>	<i>xv</i>
<i>Table of Statutory Instruments</i>	<i>xxii</i>
<i>Table of Legislation</i>	<i>xxiii</i>
1 INTRODUCTION TO COMPANY LAW	1
1.1 Who this book is for	1
1.2 What we mean by 'company law'	2
1.2.1 Core company law	2
1.2.2 Insolvency law	3
1.2.3 Securities regulation	4
1.2.4 Corporate governance	5
1.3 Sources of company law	10
1.3.1 Legislation	10
1.3.2 Case law	10
1.3.3 Foundation legal knowledge and company law	11
1.4 Historical development of company law	12
1.4.1 The first registered companies	12
1.4.2 Limited liability for company members	13
1.4.3 The model company for which company law was designed	13
1.4.4 Single member and closely held companies	13
1.4.5 Twentieth century developments	14
1.5 European Union company law initiatives	16
1.5.1 Core company law harmonisation	16
1.5.2 The Financial Services and Company Law Action Plans	18
1.5.3 Freedom of establishment and cross-border mobility	19
1.5.4 The future of EU company law	22
1.6 The Company Law Review and the Companies Act 2006	22
1.7 Evaluating the Companies Act 2006	23
2 LEGAL STRUCTURES OF BUSINESS ORGANISATIONS	27
2.1 Introduction	27
2.2 Categorising private businesses in the UK	28
2.2.1 Categorisation of private businesses by legal structure	28
2.2.2 Categorisation of private businesses by size	29
2.2.3 Categorisation relevant to determining applicable laws	29
2.3 Unincorporated business organisation legal structures	32
2.3.1 Sole traders	32
2.3.2 Partnerships	33
2.4 Incorporated business organisation legal structures	36
2.4.1 Registered companies	36
2.4.2 Limited liability partnerships (LLP)	43
2.4.3 Chartered and statutory corporations	45

2.5	Partnerships, LLPs and Registered Companies compared and contrasted	45
2.6	Social enterprise private legal structures	48
2.6.1	Unincorporated associations	48
2.6.2	Charitable incorporated organisations (CIO)	50
2.6.3	Community interest companies (CIC)	50
2.6.4	UK mutual organisations	52
2.7	European organisation legal structures	54
2.7.1	European business organisation structures	54
2.7.2	European social economy entity structures	56
3	THE COMPANY AS A DISTINCT AND LEGAL PERSON	62
3.1	The registered company as a corporation	62
3.2	What is a corporation?	63
3.3	The consequences of incorporation/separate legal personality	64
3.4	<i>Salomon v A Salomon & Co Ltd</i>	65
3.4.1	The first instance and Court of Appeal decisions	66
3.4.2	The House of Lords decision	67
3.4.3	Separate legal personality and insurance	67
3.5	Limited liability: a concept distinct from separate legal personality	68
3.5.1	Limited and unlimited companies	68
3.5.2	Shareholder payments to a company that is trading	68
3.5.3	Shareholder payments to a company that is being wound up	69
3.5.4	Justifications for limited liability	70
3.6	Corporate groups and separate legal personality	70
3.7	Limits on the implications of incorporation/separate legal personality	72
3.7.1	Typical scenarios	73
3.7.2	Self-help action to mitigate the consequences of incorporation	75
3.7.3	Piercing the corporate veil: court-developed limits on the consequences of incorporation	76
3.7.4	Statutory provisions supplementing available remedies	82
4	COMPANY FORMATION AND LINKED ISSUES	88
4.1	Registering a UK company	88
4.1.1	Where to register	88
4.1.2	Registration requirements: general	89
4.1.3	Registration requirements: submitting an application to register	89
4.2	Specialist company formation companies	90
4.3	Company numbers and names	90
4.3.1	Company numbers	90
4.3.2	Company names	91
4.3.3	Names and the phoenix syndrome	95
4.4	Promoters	97
4.5	Transferring a business to a company	99
4.6	Pre-incorporation contracts	99
4.6.1	What is a pre-incorporation contract?	99
4.6.2	What is meant by 'subject to any agreement to the contrary'?	100
4.6.3	Can the person made liable by s 51 enforce the contract?	101
4.6.4	Can a company ratify or adopt a pre-incorporation contract?	101
4.6.5	How can a company become a party to a pre-incorporation contract?	102

4.7	Re-registration of a company	102
4.7.1	From private to public	102
4.7.2	From public to private	103
5	THE CONSTITUTION OF THE COMPANY	108
5.1	What is the constitution of a company?	108
5.2	Pre-Companies Act 2006 constitutions	109
5.3	The objects and capacity of a company	109
5.3.1	Pre-Companies Act 2006 companies	109
5.3.2	Companies registered under the Companies Act 2006	113
5.4	The Articles of Association	114
5.4.1	What are the articles of association?	114
5.4.2	Drafting articles and model articles	114
5.4.3	Ascertaining the articles of association	115
5.4.4	Content of the articles of association	115
5.4.5	Effect of the articles of association	117
5.5	Amending the articles of association	125
5.5.1	Statutory provisions governing amendment	125
5.5.2	Contractual provisions affecting amendment	125
5.5.3	Court-developed restrictions on amendment	126
5.6	Contracts with terms derived from the articles	130
5.7	Shareholders' agreements	131
5.7.1	Matters addressed in shareholders' agreements	132
5.7.2	Who is party to a shareholders' agreement?	132
5.7.3	Enforcing shareholders' agreements	133
5.7.4	The effect of the enforceability of shareholders' agreements	133
6	FINANCING A COMPANY	138
6.1	Introduction	138
6.2	Types of corporate financing	139
6.3	Lease financing	140
6.4	Debt financing: creditors	140
6.4.1	Overdraft facilities	141
6.4.2	Simple loan contracts	141
6.4.3	Syndicated loans	141
6.4.4	Subordinated loans	142
6.4.5	Debt securities	142
6.4.6	Secured lending	142
6.4.7	Debentures	145
6.5	Equity financing: shareholders	146
6.5.1	No shareholder right to receive payment for equity capital	146
6.5.2	No shareholder right to receive share capital back from the company	147
6.5.3	The composition of share capital	148
6.5.4	Nature of the relationship between a shareholder and the company	148
6.6	Hybrid financing	149
7	SHAREHOLDERS, SHARES AND SHARE CAPITAL	153
7.1	Introduction	153

7.2	Shareholders	153
7.2.1	Who is entitled to the residual wealth of a company?	153
7.2.2	How may shareholders realise the residual wealth of the company?	154
7.2.3	Who is required to contribute to a company with unpaid debts?	156
7.3	Legal nature of a share	157
7.3.1	Share as a bundle of rights and liabilities	157
7.3.2	Presumption of equality of shares and classes of shares	157
7.4	Share capital	164
7.4.1	The old regime: authorised share capital	165
7.4.2	The new law: share capital statements	165
7.4.3	The new law: the language of share capital	166
7.5	Alteration of share capital	167
7.5.1	Increasing the share capital	167
7.5.2	Reduction of share capital	174
7.6	Offering shares to the public	176
8	CAPITAL MAINTENANCE AND DISTRIBUTIONS	180
8.1	Introduction	180
8.1.1	Can share capital protect a creditor against company trading losses?	181
8.1.2	The relevance of share capital over the life of a company	184
8.1.3	The meaning of 'capital maintenance'	184
8.2	Minimum share capital requirement	185
8.2.1	Requirement to have a share capital	185
8.2.2	Private companies	185
8.2.3	Public companies	185
8.3	Statutory prohibition on reduction of share capital except in accordance with the Act and company articles	185
8.3.1	Private company reduction of share capital	186
8.3.2	Public company reduction of share capital	187
8.3.3	Acquisition of own shares	187
8.4	Is capital maintenance important to creditors?	190
8.5	Regulation of distributions	191
8.5.1	Distributions	191
8.5.2	Restrictions applicable to both private and public companies	192
8.5.3	Additional limit on distributions by public company: net asset test	195
8.5.4	Distributions in kind	195
8.5.5	Remedies for payment of unlawful distributions	196
8.6	Shareholder last principle on a winding up	198
8.7	A broader concept of capital maintenance?	199
8.7.1	Gratuitous payments to non-shareholders	199
8.7.2	Gratuitous payments as <i>ultra vires</i>	199
8.7.3	The 'Cakes and Ale Case Law'	199
8.8	Political donations	201
8.9	Financial assistance for the purchase of its own shares	203
8.9.1	Background to the current rules	203
8.9.2	Reasons for the statutory prohibition	203
8.9.3	Typical examples of financial assistance	204
8.9.4	What is prohibited?	204
8.9.5	Limits and exceptions to the prohibition	204

8.9.6	Criminal sanctions for contravention	205
8.9.7	Civil remedies for breach	205
8.9.8	Reform	206

9 GOVERNANCE OF THE COMPANY 211

9.1	Introduction and key organs of governance of a company	211
9.2	Shareholder governance	212
9.2.1	Introduction	212
9.2.2	Division of powers in the articles	213
9.2.3	Statutory powers of shareholders	214
9.2.4	Default powers of shareholders	215
9.2.5	How shareholders exercise their powers	215
9.3	Board of directors	223
9.3.1	Board powers and decision-making	223
9.3.2	Definition and classification of directors	226
9.3.3	Appointing and removing directors	229
9.3.4	Remuneration of directors	232
9.4	Company secretary and officers	235
9.4.1	Company secretary	235
9.4.2	Officers	236

10 LEGALLY BINDING THE COMPANY 241

10.1	Introduction	241
10.2	Deeds that bind the company	242
10.2.1	Use of deeds	242
10.2.2	Requirements for a company to be bound by a deed	242
10.2.3	Looking behind a deed	243
10.3	Company seals	244
10.4	Contracts that bind the company	244
10.4.1	Formal agreements (deeds)	244
10.4.2	Simple contracts	244
10.5	Authority of the board of directors to bind the company	247
10.5.1	The Companies Act 2006, s 40 and board authority	247
10.5.2	The common law position and board authority	252
10.6	Authority of individuals to bind the company	253
10.6.1	Actual authority	254
10.6.2	Ostensible authority	256
10.6.3	Implied actual authority and ostensible authority contrasted	258

11 DIRECTORS' DUTIES: GENERAL CONSIDERATIONS AND MANAGEMENT DUTIES 267

11.1	Introduction	267
11.1.1	Approach to the study of directors' duties	267
11.1.2	Control of director self-interest	268
11.1.3	Control of management behaviour	269
11.2	Legislative reform of directors' duties	270
11.2.1	Statutory regulation of particular transactions	270
11.2.2	General duty codification initiatives	270
11.2.3	Rationale for the 2006 reform	271
11.2.4	Have the general duties been codified?	272

11.3	To whom do directors owe their duties?	273
11.3.1	Directors' duties are owed to the company	273
11.3.2	Enlightened shareholder value	273
11.3.3	The interests of creditors	274
11.4	Management duties of directors	276
11.4.1	General management duties	276
11.4.2	Key specific management duties	283
12	DIRECTORS' DUTIES: SELF-INTEREST DUTIES	287
12.1	Introduction	287
12.2	Directors' conflicts of interest	288
12.2.1	Duty to avoid conflicts of interest	289
12.2.2	Duty not to accept benefits from third parties	293
12.3	Directors contracting with their companies	293
12.3.1	Statutory declaration of interest to the board of directors	294
12.3.2	Shareholder approval of specified transactions	296
13	DIRECTORS' DUTIES: REMEDIES AND RELIEFS AND DIRECTOR DISQUALIFICATION	301
13.1	Introduction	301
13.2	Remedies	301
13.2.1	Remedies for breach of duty to exercise reasonable care, skill and diligence (s 174)	302
13.2.2	Remedies for breach of the equity-based duties (ss 171–173 and 175–177)	302
13.2.3	Remedies for failure to obtain shareholder approval for specific transactions	303
13.2.4	Removal from office	304
13.3	Relief from liability, indemnification, exclusion of liability and insurance	304
13.3.1	Relief from liability	304
13.3.2	Indemnification, exclusion of liability and insurance	305
13.4	Director disqualification	306
13.4.1	The basis for disqualification orders and undertakings	306
13.4.2	The effect of disqualification orders and undertakings	307
14	MINORITY SHAREHOLDER PROTECTION	311
14.1	Introduction	311
14.2	The proper claimant principle	313
14.2.1	Majority rule and the business judgment rule	313
14.2.2	Limits to the proper claimant principle	314
14.2.3	Example: proper claimant principle	314
14.3	Statutory derivative claims	315
14.3.1	Grounds for claim	316
14.3.2	Claim procedure	316
14.3.3	Costs	320
14.4	Personal actions by shareholders	320
14.4.1	Reflective loss: denial of the personal right to recover	322
14.5	Unfairly prejudicial conduct petitions	324
14.5.1	Introduction	324
14.5.2	Petitioners and respondents	325

14.5.3	The behaviour complained of	325
14.5.4	The interests of members	326
14.5.5	Remedies and costs	330
14.5.6	Reform and alternative dispute resolution	333
14.6	Just and equitable winding-up petitions	333
14.6.1	Who may apply	333
14.6.2	Foundation of the jurisdiction	333
14.6.3	Relationship with unfair prejudice claims	334
15	RESTRUCTURING, RESCUING TROUBLED COMPANIES AND TAKEOVERS	341
15.1	Introduction	341
15.2	Schemes of arrangement and reconstruction	342
15.2.1	Section 110 schemes of reconstruction	342
15.2.2	Part 26 schemes of arrangement	344
15.3	Company voluntary arrangements (CVA) and small company moratoria	347
15.3.1	Company voluntary arrangements	348
15.3.2	The small company moratorium	349
15.4	Administration	350
15.4.1	Purpose of administration	350
15.4.2	Commencement of administration	350
15.4.3	Effect of administration	351
15.4.4	Ending the administration	353
15.5	Takeovers	354
15.5.1	Takeovers, mergers, acquisitions and disposals	354
15.5.2	Scope of application of the Code	355
15.5.3	The nature, purpose and general principles of the Code	356
15.5.4	Outline of the basic takeover bid process	357
15.5.5	Minority shareholder treatment	358
15.5.6	Key additional legal rules and problem areas in takeovers	359
15.5.7	Action by the target company board	359
15.5.8	The Panel on Takeovers and Mergers (the Panel)	360
16	WINDING UP AND DISSOLUTION OF A COMPANY	365
16.1	Introduction	365
16.2	Types of winding up	366
16.2.1	Voluntary winding up	366
16.2.2	Compulsory winding up	366
16.2.3	Insolvent winding up	366
16.2.4	Sources of insolvency law	367
16.2.5	Effects of a winding up order or appointment of a liquidator	367
16.3	Secured creditors	367
16.3.1	Classification of loan security	368
16.3.2	Fixed charges	369
16.3.3	Floating charges	370
16.3.4	Charges over book debts	372
16.3.5	Registration of charges	374
16.3.6	Priority of charges	375
16.3.7	Fixed and floating charges compared and contrasted	377

16.4	Assets available for distribution	378
16.4.1	Role of the liquidator	378
16.4.2	Avoidance of transactions	379
16.4.3	Swelling the assets: applications for contributions	387
16.5	Distribution of the assets	389
16.5.1	Assets subject to fixed charges	389
16.5.2	The statutory order of distribution	390
16.6	Dissolution and restoration	391
17	TRANSPARENCY	398
17.1	Introduction	398
17.2	Public disclosure under the Companies Act 2006	399
17.2.1	Company registers available for public inspection	399
17.2.2	Annual filings	400
17.3	Public disclosure under the Financial Services and Markets Act 2000	403
17.3.1	Periodic Disclosure	403
17.3.2	Disclosure of inside information	404
17.4	Audit and auditors	405
17.4.1	The audit requirement	405
17.4.2	Appointment, functions, duties and removal of auditors	405
17.4.3	Auditor liability	405
17.5	Company investigations	407
	<i>Appendix</i>	410
	<i>Glossary of terms</i>	414
	<i>Index</i>	421