

CONTENTS

Preface	v
Table of Statutes	xvii
Table of Statutory Instruments	xxi
Table of Cases	xxiii
 Chapter 1	
Introduction	1
 Chapter 2	
Directors: Background and Role	9
I Introduction	9
II Types of director	9
A General	9
B Executive and non-executive	10
III Directors recognised at law	12
A De jure directors	12
B De facto directors	12
C Shadow directors	15
D Distinguishing between de facto and shadow directors	17
IV The director's position as a fiduciary	18
V Groups of companies	22
VI Duration of duties	22
 Chapter 3	
Directors in the Corporate Governance Process	23
I Introduction	23
II Defining corporate governance	23
III Separation of ownership and control and directorial discipline	25
IV To whom are duties owed?	28
A Shareholder value principle	29
1 From a theoretical viewpoint	29
2 From a positive perspective: What do the cases say?	36
B Stakeholder theory	41
C Summary	47
D Duties to individual shareholders?	48
E Duties to creditors?	48
V Agency theory	49
VI Process	50

VII Recording actions and decisions	51
Chapter 4	
Codification and an Introduction to the General Duties	53
I Introduction	53
II Codification	53
III Interpretation	59
IV Fiduciary duties	60
V Scope and nature of the duties	63
VI Former and shadow directors	65
VII Other duties	66
VIII Proceedings for breach of duties	68
A Who takes proceedings?	68
B Time limits for actions	69
IX Summary	71
Chapter 5	
Duty to Act within Powers	73
I Introduction	73
II The duty to act in accordance with the company's constitution	73
III The duty to exercise powers for the purposes for which they were conferred	76
A Introduction	76
B Complications	80
C Background	82
D The primary or substantial purpose	86
E The 'but for' test	92
F Focus on the best interests of the company	93
G An assessment	97
H The effect of a breach	101
IV Summary	101
Chapter 6	
Duty to Promote the Success of the Company	103
I Introduction	103
II The section	104
A Generally	104
B Companies not focused on member benefits	105
C Duties to creditors	106
III The development of the duty	106
A The Company Law Review	106
B Company Law Reform: the first Government White Paper	108
C Company Law Reform: the second Government White Paper	108
D The Company Law Reform Bill	110
IV The Interpretation of the section	110
A Introduction	110
B Good faith	112
C Success	118

D 'Benefit members as a whole'	121
E Factors to which regard is to be had	121
1 Long term	127
2 Employees	132
3 Suppliers and customers	134
4 The community and the environment	134
5 High standards of business conduct	137
6 Members	137
7 Summary	138
F 'Have regard to'	138
V Enforcement of the duty	144
VI In practice	147
VII Assessment	152
VIII Conclusion	154
 Chapter 7	
Duty to Exercise Independent Judgment	157
I Introduction	157
II The existing common law	159
A The general rule	159
B The exceptions	161
III The special case of nominee directors	163
IV The provision – section 173	170
V Conclusion	171
 Chapter 8	
Duty of Care, Skill and Diligence	173
I Introduction	173
II Background	177
III The perceived change in judicial approach	182
IV The new provision	185
V Care	188
A Monitoring	190
B Keeping themselves informed	195
C Delegation	197
D Records and accounts	199
E Reliance	200
F The objective standard	205
G Decisions and hindsight	208
H The business judgment rule	210
I Professional advice	214
VI Skill	215
VII Diligence	217
VIII Non-executives	220
IX Enforcement of a breach	223
X Defences	225
XI Concluding remarks	226
A What will the courts consider?	226

B Assessment	227
C Summary	228
Chapter 9	
Avoiding Conflicts of Interest: the Duty	231
I Introduction	231
II Background	232
III The rationale for the avoidance of conflicts	239
IV The section	240
V Conflict of interest	240
VI Possible conflict	241
VII Exceptions	242
VIII Examples of conflict	247
IX Competing directorships	247
X Former directors	253
XI The effects of a conflict	255
XII Opting out	255
XIII Conclusion	256
Chapter 10	
Avoiding a Conflict of Duty: Application	257
I Introduction	257
II Resignation of directors	257
A Introduction	257
B Exploiting opportunities	260
C Establishing a competing business	263
1 Preliminary/preparatory steps	263
2 Other factors	269
III Exploitation	270
A Introduction	270
B Corporate information	271
C Corporate opportunities	272
1 Introduction	272
2 A strict approach	274
3 A more liberal/flexible approach	277
4 Restraint of trade and hindering entrepreneurialism	283
5 Company not being able to exploit the opportunity	284
6 The company would not have succeeded in obtaining the opportunity	286
7 The company chooses not to pursue an opportunity	286
8 Third party preference	287
9 The role in which the director is acting	288
10 The North American experience	291
11 What is an opportunity?	292
12 Director conduct	295
IV Conclusion	296

Chapter 11

Duty not to Accept Benefits	299
I Introduction	299
II The provision	300
III Exceptions	301
IV 'Third party'	301
V Former directors	302
VI 'Benefit'	302
VII Secret profits and bribes	303
VIII Effects	307

Chapter 12

Duty to Declare an Interest	309
I Introduction	309
II The provision	310
III Exceptions	313
IV An interest	314
V The disclosure	315
A Generally	315
B The manner of disclosure	315
C To whom is disclosure to be made?	316
D Implied disclosure?	316
E Participation of the disclosing director	317
F Disclosure and single directors	317
VI Effects	318
VII Disclosure under section 182	319

Chapter 13

Duty to Consider the Interests of Creditors	323
I Introduction	323
II Policy and legislative background	324
III The basis of the duty	326
IV The case law development	328
V The triggering of the duty	333
VI How should directors act?	339
VII Is the obligation a duty to creditors?	344
VIII To which creditors is an obligation owed?	347
IX Conclusion	350

Chapter 14

Derivative Proceedings	351
I Introduction	351
II The common law: some background	353
III The statutory derivative action	356
A Introduction	356
B The elements for a claim	357
C The practice and procedure	361

IV The criteria for determining whether permission will be granted	364
A Specified criteria which courts must consider	364
1 Prima facie case	364
2 Elements as to which the court must be satisfied	369
3 Good faith	371
4 Importance to a person acting in accordance with section 172	379
5 Likelihood of authorisation or ratification	379
6 The company has decided not to pursue the claim	380
7 Alternative remedy	380
8 Views of members with no personal interest in the matter	383
B Other relevant factors: the best interests of the company	383
V Following permission	386
VI Common law proceedings and retrospective effect	386
VII Companies in liquidation	388
VIII The effect of the new procedure	390
IX Conclusion	393

Chapter 15

Consequences of Breach	395
I Introduction	395
II The relief	396
A Damages or equitable compensation	396
B Account of profits	401
C Restoration of the company's property	405
D Injunction and declaration	406
E Rescission	406
F Money had and received	407
G Dismissal	407
H Proprietary relief	407
I Choice of relief	408
III Constructive trustee	409
IV Allowance to directors	410
V Third parties	412
A Generally	412
B Knowing assistance	414
C Knowing receipt	418

Chapter 16

Authorisation and Ratification of Breaches of Duty	421
I Introduction	421
II Consent, approval or authorisation by the members	422
III Ratification by the members	424
A The essence of, and background to, ratification	424
B Position at common law	426
1 What may be ratified?	426
2 What about unanimous voting?	432
3 Who is bound by ratification?	433
C The section	435

D Ratification of breaches of statutory duties	437
E Exclusions from voting	437
F A limit on ratification	440
Chapter 17	
Judicial Excusing of Breaches	443
I Introduction	443
II The provision	443
III Background	445
IV Procedure and evidence	446
V Rationale for the provision	446
VI The provision and the duty of care	447
VII The ambit of the provision	451
VIII The conditions	455
A Honesty	455
B Acting reasonably	459
C Fairness	463
IX Apprehended liability	466
X Conclusion	469
Index	471