



**COMPANY LAW REFORM:  
SMALL BUSINESS SUMMARY**

MARCH 2005

# Company Law Reform: Small Business Summary

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An effective framework of company law and corporate governance promotes enterprise and stimulates investment. We are determined to ensure that our system makes it easy to set up and grow a business. A thorough overhaul of the law is needed to make it more suited to the needs of small business. This summary sets out the main proposals of the Company Law Reform Bill affecting small business. The Bill will be introduced as soon as Parliamentary time allows.

## **Clearer law**

Currently company law is written with the large company in mind. The provisions that apply to private companies are often expressed as an exception to the provisions applying to public companies, making them hard to understand. We will restructure those parts of the law most relevant to small companies (such as the model articles of association and the requirements on accounts and audit) so that the provisions that apply to them are easier to find. We will also use simpler, clearer language.

## **Better guidance**

We cannot eliminate the complexity in company law, (as this would reduce flexibility for companies), so to make it easier to understand for both companies and their advisors it must be supplemented by clear and comprehensive guidance. Small companies will easily be able to identify the basic day to day requirements that apply to them. We will increase the coverage of Companies House plain English guidance and ensure it follows the principles of "Think Small First."

## **Improved website**

Increasingly, small companies are using the Companies House website. Companies House will continue to improve their website for their customers, including a wider range of web-based guidance, better links to related websites and on-line access to up to date companies legislation. During 2007, Companies House will be offering web incorporation and this will be supported by easier access to relevant material, for example the new shortened and simplified private company articles of association.

# Specific legislative changes

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The main changes to company law affecting small companies are as follows:

## **Forming a company**

There will be separate model articles of association for private companies that will contain the minimum key rules on the internal workings of the company. These will be shorter and clearer.

## **No requirement for a company secretary**

We will abolish the requirement for private companies to have a company secretary.

## **Directors**

The general duties that a director owes to the company are currently established in case law rather than statute making it hard for them to be widely understood. The Bill will include a statutory statement of directors' general duties both to make the law in this area more accessible and to change the law where it no longer corresponds to modern business

practice. We will provide clear guidance for new directors on what these duties mean.

### **Directors' addresses on the public record**

Directors will automatically have the option of filing a service address on the public record (rather than their private home address).

### **Resolutions and meetings**

Private companies will not need to hold an annual general meeting unless they positively opt to do so. It will be easier for companies to take decisions by written resolution rather than holding a meeting, as such resolutions may in future be carried with a simple or 75% majority of eligible votes rather than requiring unanimity as at present. Companies will be able to make greater use of electronic communications for communications with shareholders.

### **Accounts and audit**

The provisions on accounts and audit will be restated to make them much easier to understand for small companies and their advisors. We are retaining the option for small and medium sized companies to file abbreviated accounts with Companies House. The deadline for private companies to file their annual reporting documents will reduce from ten months after the year-end to seven,

reflecting both improvements in technology and the increased rate at which information becomes out of date.

### **Financial assistance and capital maintenance**

The rules on providing financial assistance to potential or actual shareholders, which limit the circumstances in which companies can provide assistance for the acquisition or purchase of their own shares, are highly complex and largely irrelevant to the majority of private companies and we are abolishing them. We will also make it easier for private companies to make capital reductions.

### **Keeping the law up to date**

In order to keep the law up to date and ensure it meets users' needs, we will provide a power to allow the reform or restatement of company law to be made in future by a special form of secondary legislation, subject to strong requirements on public consultation and Parliamentary scrutiny.

### **Costs and benefits**

The Government estimates that total net savings to companies of company law reform could be around £250 million annually.

## How to respond

We welcome views on all aspects of the proposals. Responses should be sent by 10 June 2005 by email to: [companylawreform@dti.gsi.gov.uk](mailto:companylawreform@dti.gsi.gov.uk) or by letter to Patrick Barry, Company Law Reform Bill, 5th Floor, 1 Victoria Street, London SW1H 0ET.

## More information

Further copies of this summary can be obtained by calling the DTI publications orderline on 0845 0150010. The full text of the Company Law Reform White Paper Cm 6456 is available from The Stationery Office telephone 0870 600 5522 or email [book.orders@tso.co.uk](mailto:book.orders@tso.co.uk). This includes the draft private company articles. Both the White Paper and the summary are also available on the DTI website: [www.dti.gov.uk/cld/review.htm](http://www.dti.gov.uk/cld/review.htm) and through the Companies House website [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) .

