

1 Summary

This White Paper builds closely on the work of the Company Law Review (CLR), and of the Government's subsequent White Paper of 2002. The CLR itself conducted a series of public consultations before publishing its final report, and the Government has taken full account of that process, of responses to the White Paper, and of subsequent consultations, both formal and informal, in determining the policy measures now set out in this document. Draft clauses are included for a number of the areas.

Company law can be very complex, and there will be some interested parties (perhaps particularly smaller firms and their advisors) who will want to gain some understanding of the central measures proposed, but who may not wish to investigate the technical minutiae of how they will be delivered in legislation. Set out below, therefore, is a list of the key legislative changes. A separate small business summary has also been prepared, highlighting the measures likely to be of most interest to smaller firms and their advisors.

Summary of Legislative Changes

Enhancing shareholder engagement and a long-term investment culture

Shareholders are the lifeblood of a company, whatever its size. We want to promote wide participation of shareholders, ensuring that they are informed and involved, as they should be. And we want decisions to be made based on the longer-term view and not just immediate return. We will:

- embed in statute the concept of Enlightened Shareholder Value by making clear that directors must promote the success of the company for the benefit of its shareholders, and this can only be achieved by taking due account of both the long-term and short-term, and wider factors such as employees, effects on the environment, suppliers and customers;
- introduce a statutory statement of directors' duties to clarify their responsibilities and improve the law regulating directors' conflicts of interest;
- relax the prohibition on provisions which prevent auditors from limiting their liability, while delivering further improvements in the quality of the audit;

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- enhance the rights of proxies and make it easier for companies to enfranchise indirect owners of shares;
- remove the requirement for paper share certificates and facilitate the use by companies of e-communications where their shareholders want this;
- implement the Takeovers Directive that will facilitate takeover activity in the EU through improved shareholder protection and access to capital markets.

Ensuring better regulation and a “Think Small First” approach

Although the vast majority of UK companies are small, company law has been written traditionally with the large company in mind. We want to reset the balance and make the law easier for all to understand and use. We will:

- provide separate and better-adapted default articles (the current “Table A”) for private companies;
- simplify decision-making for private companies, for example by making it easier for decisions to be taken by written resolution, and making Annual General Meetings (AGMs) opt-in rather than opt-out;
- abolish the requirement for private companies to have a company secretary;
- update company financial and narrative reports;
- simplify the rules about company share capital in particular for private companies;
- implement some aspects of the European Transparency Directive;
- introduce a power to allow the law to be restated where necessary in future to make it accessible.

In addition to the changes in the law itself, the Government will be ensuring that there is appropriate advice and guidance available to users of company law, particularly smaller firms and their advisors, so that all can understand the options available to them and the requirements placed upon them.

Making it easier to set up and run a company

We want to remove unnecessary burdens to directors and preserve Britain’s reputation as a favoured country in which to incorporate. We will:

- remove the requirement on most directors to disclose publicly their home address;
- abolish the requirement for a company to have authorised share capital;
- enable a single person to form a public company;
- streamline the rules on company names and trading disclosures;
- make deregulatory changes to the register of past and present members which companies are obliged to maintain.

Providing flexibility for the future

- Company law is not static. We intend to introduce a new reform power to allow updating and amendment as circumstances dictate, subject to rigorous safeguards for full consultation and appropriate Parliamentary scrutiny.

Benefits to business

The Government believes that the measures above, by making company law better fitted to today's realities, should create improved performance across the economy as whole, as well as reducing direct compliance costs for business and producing cost savings which could amount to some £250m a year.

How to respond

The Government would welcome views on any aspects of the proposals. Responses should be sent, by **10 June 2005**, by email to:

companylawreform@dti.gsi.gov.uk

or by letter to:

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