

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

COMPANIES ACT 2006

EXPLANATORY NOTES

COMMENTARY

Sections 188 and 189: Service contracts

398. These sections replace section 319 of the 1985 Act and require member approval of long-term service contracts. In broad terms, these are contracts under which a director is guaranteed at least two years of employment with the company of which he is a director, or with any subsidiary of that company.
399. A director's "service contract" is defined in section 227 to include a contract of service, a contract for services and a letter of appointment as director.
400. Failure to obtain approval allows the company to terminate the service contract at any time by giving reasonable notice. The purpose of this section is to limit the duration of directors' service contracts, as a long-term contract can make it too expensive for the members to remove a director using the procedure in section 168 (ordinary resolution to remove director) while allowing the members to approve longer arrangements if they wish.
401. The length of service contract for which member approval is required has been reduced from those longer than five years to those longer than two years.