

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

COMPANIES ACT 2006

EXPLANATORY NOTES

COMMENTARY ON INDIVIDUAL DUTIES

Section 174: Duty to exercise reasonable care, skill and diligence

336. This duty codifies the director's duty to exercise reasonable care, skill and diligence. Traditionally, the courts did not require directors to exhibit a greater degree of skill than may reasonably be expected from a person with their knowledge and experience (a subjective test). More recently, the courts have said that the common law standard now mirrors the tests laid down in section 214 of the Insolvency Act 1986, which includes an objective assessment of a director's conduct. This section is modelled on that section.
337. The section provides that a director owes a duty to his company to exercise the same standard of care, skill and diligence that would be exercised by a reasonably diligent person with:
- a) the general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as the director in relation to that company (an objective test); and
 - b) the general knowledge, skill and experience that the director actually has (a subjective test).