



Directors Service Agreements

What is a Directors Service Agreement?

A Directors Service Agreement is a form of employment contract, but it is tailored to the specialised nature of the role of a director and the way in which they will serve the company, paying close attention to the way in which the director's relationship with the company is governed by legislation, in particular the Companies Act 2006.

Why is it Different to a Contract of Employment?

In addition to the basic terms of employment that must be provided to an employee under the Employment Rights Act 1996, the Companies Act 2006 places specific duties on directors, for instance promoting the success of the company and these must be included in the agreement. There is even more regulation for directors of listed companies and this will have to be included in the agreement too. As well as being an incentive tool, a service agreement is therefore also a means of corporate governance.

Practical Considerations?

There are a number of issues which you should consider when negotiating a directors service agreement, including :

- Remuneration package — including shares and share options
- Length of notice period
- Garden leave clauses
- Restrictive covenants
- Compensation on termination

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