The Companies Amendment Act 1985 (hereinafter referred to as “the Act”) constitutes a modification and codification of certain aspects of the law relating to contracts made between companies, acting of course through agents, and third parties. The Act abolishes the rule of constructive notice, affirms and widens the rule in *Royal British Bank v Turquand* (known as the rule of indoor management), makes provisions dealing with the affixing of a company's seal, and amends section 5 of the Property Law Act 1952. The new sections insert sections 18B to 18D into the Companies Act 1955.

The doctrine that persons dealing with a company are deemed to have notice of the contents of its registered documents was long established. The reason for this was stated by Lord Wensleydale in *Ernest v Nicholls* to be the fact of the public nature of registration:

All persons, therefore, must take notice of the deed [of settlement] and the provisions of the Act. If they do not choose to acquaint themselves with the powers of the directors, it is their own fault, and if they give credit to any unauthorised persons they must be contented to look to them only, and not to the company at large. The stipulations of the deed, which restrict and regulate their authority, are obligatory on those who deal with the company... 

This rule was developed as an exception to the normal agency rule, applicable to partnerships, that each member of a partnership, being an agent both of the firm and of each other partner, may bind the firm or the other partners on all contracts made in the normal course of the firm's business. Any agreement made among members of the partnership to limit or restrict what would otherwise be a partner's usual powers would not necessarily be known to an outsider dealing with him. Undisclosed limitations on usual authority do not bind a third party dealing with a firm or its members. However, the situation is otherwise in the case of an entity required by law to make its documents publicly available for inspection:

The legislature then devised the plan of incorporating these companies in a manner unknown to the common law, with special powers of management and liabilities, providing at the same time that all the world should have notice who were the persons authorised to bind all the shareholders, by requiring the copartnership deed to be registered, certified by the directors, and made accessible to all; and besides, including some clauses as to the management...

This constructive notice doctrine is essentially negative as far as the outsider contractor is concerned. It operates in favour of the company, in that the outsider is not permitted to assert, in attempting to enforce a contract against the company, that he was not aware of any limitation on the powers of the person with whom he was dealing which an inspection of the public documents would have revealed.

However, a qualification to the rule of constructive notice developed, which

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1. (1856) 6 E. & B. 327.
2. (1857) 6 H.L.C. 401 at 419.
3. Ibid p. 419.
favoured the contractor as against the company. This rule, known as the indoor management rule, or the rule in Turquand’s Case (although it actually predated Turquand) may be relied on by a contractor where the company’s public documents contain nothing which indicates that the contract in question may not be made. If the documents confer power on the company’s officers to bind the company, but provide that certain preliminary conditions or formalities must be complied with before the power may be exercised, then the contractor is not obliged to ensure that those conditions or formalities have been fulfilled. He is entitled to assume that the company’s officers are acting lawfully. Accordingly, where, as in Turquand itself, the directors were authorised to borrow such sums as should be authorised by a general resolution of the company, and the directors borrowed without an authorising resolution, the plaintiffs were held entitled to assume that a resolution had in fact been passed. The rule was expressed by Lord Hatherley in Mahony v East Holyford Mining Co.:4

... when there are persons conducting the affairs of the company in a manner which appears to be perfectly consonant with the articles of association, then those so dealing with them, externally, are not to be affected by any irregularities which may take place in the internal management of the company. They are entitled to presume that that of which only they can have knowledge, namely the external acts, are rightly done, when those external acts purport to be performed in the mode in which they ought to be performed.

The application of these rules, taken together with other legal principles (in particular, those of agency) has been a source of considerable academic and judicial discussion. The difficulties which have arisen have, on the whole, been related to the question of the nature of the authority which an officer or agent of a company must have in order to bind the company where the acts of that officer or agent are in contravention of provisions in the company’s registered documents, in that a particular formality which is required to confer power to act on the officer or agent has not been complied with. The nature of the authority, if any, granted by the company (which can, of course, act only through human agents) becomes of paramount importance.

On this question, it is important to distinguish two major kinds of authority. The first is actual authority, where the company has in fact authorised an agent to act on its behalf. This authority may be express as, for example, where the company executes a power of attorney or makes an express oral or written agreement with the agent; or it may be inferred from the parties’ conduct. Actual authority rests on the notion that the parties have agreed to the agency relationship. Included in the scope of actual authority there is an authority to do whatever is necessary for, or incidental to, the effective execution of the express authority, as well as an authority to do whatever an agent of the kind concerned would usually have authority to do. Accordingly, if a board of directors appoint one of their number to be a managing director, they thereby clothe him with the authority to do any act which falls within the usual scope of that office.5

Actual (including incidental and usual) authority must be distinguished from apparent (sometimes called ostensible) authority. The significant point about apparent authority is that it does not involve any conferral of authority on an agent at all; rather, it develops from a representation or holding out

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4 (1875) L.R. 7 H.L. 869 at 894.
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... where one has so acted as from his conduct to lead another to believe that he has appointed someone to act as his agent, and knows that that other person is about to act on his behalf, then, unless he interposes, he will, in general, be estopped from disputing the agency, though in fact no agency really existed.

In a case where actual authority is in issue, it is the relationship between the company and its agent which must be examined to determine the existence or scope of authority. Where apparent authority is alleged, however, the significant conduct is that of the company and the third party; that of the company's putative agent is irrelevant to the question of whether an apparent authority is found to exist. This distinction is discussed in detail in Freeman and Lockyer v Buckhurst Park Properties (Mangal) Ltd., where Diplock L. J. pointed out that the most common form of representation which creates apparent authority is "representation by conduct, that is, by permitting the agent to act in some way in the conduct of the principal's business with other persons". However, where a company has held out a person as its agent and the company's registered documents do not permit the delegation of the authority in question, the doctrine of constructive notice will operate to prevent any contract made in these circumstances being enforced against the company.

The enactment of section 18B of the Act alters the law in such a case. The section reads:

Registration of documents not to constitute constructive notice — (1) Subject to subsection (2) of this section, no person is affected by or is deemed to have notice or knowledge of the memorandum or articles of a company or any other documents or the contents thereof by reason only that the memorandum or articles or other documents are —

(a) Pursuant to this Act —

(i) Registered by the Registrar; or
(ii) Filed or lodged with the Registrar; or
(b) Available for inspection at an office of the company

(2) Nothing in subsection (1) of this section applies to a document registered under Part IV of this Act.

This section abolishes the common law rule that the fact of registration of documents is in itself sufficient to fix an outside contractor with knowledge of their contents. This increases the protection afforded the person contracting with the company. The abolition of constructive notice will, of course, leave unaltered the case where a third party makes a contract with a company's agent who has actual authority to act; whether the third party knows of the agent's authority or not, the company will be bound under the contract by virtue of its conferral of actual authority on its agent. It is in the area of apparent authority that a change is effected, for here, the constructive notice doctrine operated to limit the normal rules as to apparent authority. As Slade J. said in Rama Corp. v Proved Tin & General Investments,8 "[i]t is possible to have ostensible or apparent authority apart from the articles of association. You cannot have one inconsistent with the articles of association

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6 (1863) 33 L.J. Ch. 155 at 162.
7 [1964] 2 Q.B. 480 at 505.
8 [1952] 2 Q.B. 147 at 165.
or beyond the articles of association . . . .” The same point was made in *Freeman and Lockyer.* The effect of Section 18B will be to remove this restriction. The important issue as far as apparent authority is concerned is the nature and effect of any representations made by a company to a third party. It is the appearance of authority which matters. Where a company represents that an officer or agent has authority to contract on its behalf, and that representation is sufficient to raise an estoppel against the company to prevent its denying the validity of the contract, the mere fact that there are registered documents which purport to limit this authority will not now operate in favour of the company.

If, however, there is some further circumstance which puts, or ought to put, a third party on inquiry as to the contents of registered documents, then notice will not be imputed to him by reason “only” of the fact that the documents are registered. Any factor which ought to put a third party on inquiry or, a fortiori, express knowledge of the company’s documents, would tend to negative that party’s assertion that he relied on a representation by the company which was contrary to the registered documents.

The doctrine of constructive notice operated against the contracting third party. It did not enable him to assert against a company that, in a case where a company’s documents contained an unusual provision the existence of which he was unaware, he was fixed with knowledge of it such as to create a state of reliance on a representation by the company that its agent had authority to act for it. If, for example, the officer or agent made an unusual contract, being one that an officer or agent of this kind would not normally be authorised to make, and the articles provided that he might be granted such authority on the fulfilment of certain formalities, if those formalities were not completed, the officer or agent would have no actual authority to act. The other party to the contract would then, in order to enforce the contract, be forced to establish that the company represented or held out the officer or agent as authorised to act for it; that is, he would have to establish apparent authority. If, however, the third party had never in fact had any knowledge at all of the provisions of the articles, he could not, in the absence of any other conduct on the part of the company so as to give rise to an estoppel, assert that he acted in reliance on a provision in the articles of which he was totally unaware. In such cases in the past, the third party has been unable to enforce the contract, for “[t]here can be no actual reliance on a constructive representation” In such circumstances, the indoor management rule was not applicable. Although the abolition of constructive notice will not itself alter this position, a third party in such a case could now be saved by section 18C(1)(a).

Section 18C(1) provides:

Dealings between company and other persons —

(1) A company or a guarantor of an obligation of a company may not assert against a person dealing with the company or with any person who has acquired any property, rights, or interests from the company that —

(a) The memorandum or articles of the company have not been complied with:

(b) A person named in the particulars sent to the Registrar under section 200 of this Act as a director or secretary of the company —

9 Supra p. 505.

10 I. D. Campbell, “Contracts with Companies” (1959) 75 L.Q.R. 469 at 479

11 e.g. *Ranza Corp.* (supra)
(i) Is not a director or secretary of the company, as the case may be; or
(ii) Has not been duly appointed; or
(iii) Does not have the authority to exercise a power which a director or secretary of a company carrying on business of the kind carried on by the company customarily has authority to exercise:

(c) A person held out by the company as an officer or agent of the company —
(i) Has not been duly appointed; or
(ii) Does not have the authority to exercise a power which a director or secretary of a company carrying on business of the kind carried on by the company customarily has authority to exercise:

(d) A person held out by the company as an officer or agent of the company with authority to exercise a power which an officer or agent of a company carrying on business of the kind carried on by the company does not customarily have authority to exercise, does not have the authority to exercise that power:

(e) An officer or agent of the company who has authority to issue a document on behalf of the company does not have authority to warrant that the document is genuine.

(f) An officer or agent of the company who has authority to issue a certified copy of a document on behalf of the company or otherwise certify on behalf of the company does not have authority to warrant that the copy is a true copy or to so certify unless that person knows or by reason of his position with or relationship to the company ought to know of the matter referred to in paragraphs (a), (b), (c), (d), (e), or (f) as the case may be, of this subsection.

This section codifies the rule in Turquand’s case, that a person dealing with a company is entitled to assume that the indoor management of the company has been lawfully carried out. It is “... a rule designed for the protection of those who are entitled to assume, just because they cannot know, that the person with whom they deal has the authority which he claims.”

This principle extends to cover the case where a person’s name appears as a director or secretary of a company on the registered documents, but his appointment is defective or, it seems, non-existent. In this respect, section 18C(1)(b) and (c) offer a greater protection to the third party than does section 183 of the principal Act, which provides that the acts of a director or manager are valid notwithstanding any defect which is afterwards discovered in his appointment or qualification. It was held in Morris v Kanssen13 that this section did not apply where there was no effort made to effect an appointment at all; rather, it was confined to a case where there were “slips or irregularities” made in an appointment. This view was upheld by the New Zealand Court of Appeal in Re Northwestern Autoservices Ltd.14 However, at common law, no such distinction was drawn; where a person was named on the registered documents as occupying a particular office, a third party was entitled to assume a valid appointment had taken place.15 Subsections 18C(b) and (c) codify the rule, so that where a company represents that a person is its officer or agent (whether by means of including his name as such on the registered documents or by some other means) the company may not assert that he has not been duly appointed.

Subsections 18C(1)(c) and (d) deal with apparent authority, that is, the case in which an agent has no actual authority, but is represented by the company

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13 Ibid.
15 Mahoney v East Holyford Mining Co. supra
as authorised to act on its behalf. These rules were explained in *Freeman and Lockyer*,\(^\text{16}\) which is “a formulation which has become the central character in the folklore on this subject”.\(^\text{17}\) The view has also been put forward that “the law could be greatly simplified by according de jure statutory recognition to the rules laid down by Diplock L.J. in *Freeman and Lockyer*, rules which de facto already enjoy this status”.\(^\text{18}\) This is in fact what the New Zealand legislature has done; the law laid down in these two subsections is in accordance with the principles of agency outlined in *Freeman and Lockyer*.\(^\text{19}\) If a company represents that its officer or agent occupies a particular position, it will be bound by any act of that officer or agent carried out within his customary authority.

Thus, if in the case of a company the board of directors who have “actual” authority under the memorandum and articles of association to manage the company’s business permit the agent to act in the management or conduct of the company’s business, they thereby represent to all persons dealing with such agent that he has authority to enter on behalf of the corporation into contracts of a kind which an agent authorised to do acts of the kind which he is in fact permitted to do usually enters into in the ordinary course of such business.\(^\text{20}\)

Where, however, the officer or agent acts in a manner which is not usual for one occupying his particular position, the company will be bound by this “abnormal” contract only if it has in fact held out or represented that the officer or agent is authorised to do the act; that is, the representation must be in respect of the act itself, and amount to more than the mere fact that the company has held out the officer or agent as authorised to occupy the office in question.

The rules laid down in section 18C(1) are all subject to the qualification that the contracting third party is protected unless he “knows or by reason of his position with or relationship to the company ought to know” of the lack of authority. Where a person has express knowledge of this, there is little difficulty; in such a case he can not assert that he relied on a belief in a contrary state of affairs.\(^\text{22}\) More difficult, however, is the case where circumstances are such as to put a third party on inquiry. It seems that the word “knows” in section 18C must mean “expressly knows”, for the wording of the provision indicates that constructive knowledge is confined to the situation where it is by reason of the third party’s “position with or relationship to the company” that knowledge is imputed to him.

It is clear that the rule in *Turquand’s Case* applied only to “outsiders” and did not protect a person such as a director, to allow him to “presume in his own favour that things are rightly done if inquiry that he ought to make might tell him that they were wrongly done”.\(^\text{23}\) However, at common law, an outsider could also be precluded from relying on the indoor

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\(^{16}\) Supra

\(^{17}\) D. Milman and A. Evans “Corporate Officers and the Outsider Protection Regime” (1985) 6 Co. Law. 68 at 71.

\(^{18}\) Ibid p. 76

\(^{19}\) Supra.

\(^{20}\) p 505

\(^{21}\) To use the terminology of Diplock L.J. in *Freeman and Lockyer*.

\(^{22}\) *Howard v Patent Ivory Co.* (1888) 38 Ch.D. 156

\(^{23}\) *Morris v Kanssen.* (supra) at 475.
management rule where the circumstances relating to the agent’s authority to act are suspicious, and so place on the other party an obligation to inquire into the validity of his appointment. For example, in *A.L. Underwood v Bank of Liverpool*, a director endorsed cheques which were payable to the company, and paid them into his personal bank account. This was held to be so unusual as to place the collecting bank on inquiry. A case of this kind would be decided differently as a result of the application of section 18C, if the word “knows” is confined to express knowledge, because the circumstances which should have put the bank on inquiry were not related to “its position with or relation to the company”. If this interpretation is correct, and the legislature intended to distinguish between outsiders and insiders in this way, the proviso gives a greater degree of protection to the outsider than did the common law.

The matter of the company seal and the formalities relating to its use are dealt with in section 18C(2) which reads:

A company or a guarantor of an obligation of a company may not assert against a person dealing with the company or with any person who has acquired any property, rights, or interests from the company that a document has not been properly sealed by the company if —

(a) The document is sealed with a seal which appears to be the seal of the company; and

(b) The affixing of the seal appears to have been witnessed by 2 persons; and

(c) At the time the document appears to have been sealed —
   (i) One of those persons was named in the particulars sent to the Registrar under section 200 of this Act, or was being held out by the company, as a director of the company; and
   (ii) The other person was named in the particulars sent to the Registrar under section 200 of this Act, or was being held out by the company, as a director or secretary of the company —

unless that person knows or by reason of his position with or relationship to the company ought to know that —

(d) The seal is not the seal of the company; or

(e) The affixing of the seal was not witnessed by 2 persons; or

(f) A person referred to in paragraph (c)(i) of this subsection was not a director of the company; or

(g) A person referred to in paragraph (c)(ii) of this subsection was not a director or secretary of the company, as the case may be.

Before the enactment of this subsection, the applicable provision was section 5(1) of the Property Law Act 1952, which laid down a presumption that any deed to which a company seal was affixed should bind the company and that “all persons dealing in good faith and without notice of any irregularity” were entitled to presume “the regular and proper execution of the deed”. It was held by the Court of Appeal in *Langley v Delmonte and Patience* that “without notice” included “without constructive notice”, so that circumstances which should put a third party on inquiry could suffice to invalidate the deed. In *South London Greyhound Racecourses Co. v Wake* Clauson J. said that a single director would not normally have authority to affix a company’s seal to a document, for it was “within common experience that the affixing of the seal is a matter with which the board deals and not a director . . .”. That case was distinguished in *Langley v Delmonte*.

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24 [1924] I K.B. 775.
26 [1931] I Ch. 496, 509.
27 Supra.
however, where it was held that the fact that the seal was affixed by a single director did not put the other contracting party on inquiry. There was no provision in the articles as to the use of the seal; and the company in question was a small private company, of a kind well known in New Zealand to have, frequently, only one director.

Section 3 of the Act amends section 5(1) of the Property Law Act, so that it now has no application to a deed made by a company. Section 18C(2) now provides for the circumstances in which a company is estopped from asserting that a document is not properly sealed. It is subject to the exception that a person who “knows or by reason of his position with or relationship to the company ought to know” of the irregularities mentioned in the subsection will lose the protection otherwise afforded. Here, the same point may be made as in respect of the phrasing of the exception to section 18C(1), that express knowledge of one or some of the irregularities will be required on the part of an outsider before the subsection ceases to operate in his favour. The law now appears to be that, if a company’s documents are sealed other than in accordance with the manner defined in section 18C(2)(a) (b) and (c), so that there is no statutory irrebuttable presumption of validity, and, further, the sealing is not in accordance with the company’s articles, a third party who contracts with the company will be protected, provided the person who affixes the seal is one who occupies a position which would usually carry with it authority to bind the company by the use of its seal. The decision in a case such as Broadlands Finance Ltd. v Gisborne Aero Club Inc28 may well now be different. In that case, it was held that the fact that the company’s seal had been used in a manner which was inconsistent with that prescribed in the Club’s rules sufficed to put a party on inquiry. In the absence of express knowledge of the rules, such a discrepancy would not now, of itself, have the effect of invalidating any instrument thus improperly executed. The inquiry in such a case would be directed at the authority possessed by the person who executed the deed; if, to use a time honoured example, the seal was affixed by the office boy, there would be no question of usual authority, and a third party could not hold a company bound in such a case.

It is noteworthy that section 18C(2) applies to any “document” — it is not limited, as was section 5(1) of the Property Law Act, to a “deed”. The new subsection will apply to any document, whether or not it is technically a deed, and so will include, for example, share certificates, which have been held not to be “deeds”.29

It has often been said30 that if a document purporting to be issued on behalf of a company is forged, the rule in Turquand’s Case does not apply. The first decision to this effect seems to be Ruben v Great Fingall Consolidated,31 where a company secretary affixed the company’s seal to a share certificate, and forged the names of two directors as being the persons in whose presence the seal was affixed. To a third party, the share certificate appeared to be formally correct, but Lord Loreburn said: 32

The forged certificate is a pure nullity. It is quite true that persons dealing with limited

28 [1975] 2 N Z.L.R. 496
29 South London Greyhound Racecourses Co. v Wake, supra.
30 E.g. Palmer’s Company Law (23rd ed.) 345.
31 [1906] A C. 439
32 Ibid., 443.
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liability companies are not bound to enquire into their indoor management and will not be affected by irregularities of which they have no notice. But this doctrine, which is well established, applies only to irregularities that otherwise might affect a genuine transaction. It cannot apply to a forgery.

In Ruben, the company had not held out the secretary as having authority to issue the certificate, and it was not within the scope of a secretary’s usual authority “to guarantee the genuineness or validity of a document which is not the deed of the company”.

This case was followed in South London Greyhound Racecourses Co. v Wake, which differed from Ruben in that the signature of the director was genuine, but the act of forgery was the unauthorised use of the company’s seal. It was held that there was no difference in principle between the two cases. In Kreditbank Cassel v Schenkers, a branch manager of a company forged bills. The manager had no authority of any kind to issue such bills, and the company was held not to be bound by this act. These cases were followed in New Zealand in Mercantile Finance Corp. Ltd. v Francis and Taylor Ltd., where forged documents were held “simply null and void”.

There is, however, authority for the proposition that the facts that an agent or servant acts fraudulently and for his own benefit do not, of themselves, take the acts out of the scope of the agent’s or servant’s authority. In Lloyd v Grace Smith and Co., a solicitor’s managing clerk who was authorised to act in the conveyancing business of his principal, induced a widow to sign documents which were, unknown to her, in fact conveyances of her property to the clerk. The principal was held liable for the clerk’s fraud. This case did not itself involve forgery; however in Uxbridge Building Society v Pickard, a solicitor was held liable for the acts of his fraudulent clerk, although they involved uttering forged documents, on the basis that the acts performed were within the scope of his authority. The clerk was acting within the scope of the class of activities involved in conveyancing, and so bound his employer. Sir Wilfrid Greene M.R. explained this case on agency principles:

I can find no justification in any of the observations in those cases for the suggestion that a forgery, if in other respects it comes within the scope of ostensible authority, in any way prevents that doctrine from applying.

The cases in which it has been held that the rule in Turquand’s Case is not applicable to forgery can perhaps all be explained on the basis of

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33 Ibid., 444, per Lord Macnaghten.
34 Supra
35 [1927] 1 K.B. 826.
36 [1929] N.Z.L.R. 731
37 [1912] AC 716
38 In Kreditbank Cassel, supra, 839-840
40 Ibid., 256. It was pointed out by Gower, Principles of Modern Company Law (4th ed.), p.204, that the part of his judgment in which Greene M.R. attempted to explain that the indoor management rule was unrelated to normal agency principles does not appear in the Law Report, “from which it may be deduced that the learned judge had second thoughts”.
41viz. Ruben (supra), Kreditbank Cassel (supra) and Slingsby v District Bank [1932] 1 K.B. 544.
lack of authority on the part of the agent in question\textsuperscript{42}. In \textit{Ruben},\textsuperscript{43} the company secretary was not acting within the scope of his usual or apparent authority, and the same point can be made about the \textit{South London Greyhound Racecourse}\textsuperscript{44} case; that is, that it was not within the usual authority of a director to affix the company seal to a document. In \textit{Mercantile Finance},\textsuperscript{45} Adams J. held that there was no authority for the director in question to bind the company by borrowing.

The combined effect of section 18C1(e) and (f) and section 18D appears to establish the law as being on this basis of authority. The effect of this change in the law is that the courts' "unaccountable reluctance to hold a company liable when documents are issued by fraudulent officers"\textsuperscript{46} will not continue.\textsuperscript{47} Provided the company's officer or agent is a person who has authority to issue a true document or a certified copy on the company's behalf, the company will be liable if the document or copy which is issued proves to be false. The amendment therefore removes any doubt as to the effect of the line of "completely anomalous"\textsuperscript{48} cases in which the rule of indoor management was held inapplicable to forgeries.

\textsuperscript{42} This suggestion was put forward by Gower (supra), at 205.
\textsuperscript{43} Supra.
\textsuperscript{44} Supra.
\textsuperscript{45} Supra.
\textsuperscript{46} Final Report of the Commission of Enquiry into the Working and Administration of the present Company Law of Ghana, p.11.
\textsuperscript{47} In contexts other than company law, the fact that a forgery has taken place has not necessarily precluded the raising of an estoppel e.g \textit{Greenwood v Martins Bank} [1933] A.C. 51