

Caparo Industries plc v Dickman

Caparo Industries plc v Dickman [1990] UKHL 2 is a leading [English tort law](#) case on the test for a [duty of care](#). The House of Lords, following the Court of Appeal, set out a "three-fold test". In order for a duty of care to arise in negligence:

- harm must be reasonably foreseeable as a result of the defendant's conduct (as established in [Donoghue v Stevenson](#)),
- the parties must be in a relationship of proximity, and
- it must be fair, just and reasonable to impose liability

The decision arose in the context of a negligent preparation of accounts for a company. Previous cases on negligent misstatements had fallen under the principle of [Hedley Byrne v Heller](#).^[1] This stated that when a person makes a statement, he voluntarily assumes responsibility to the person he makes it to (or those who were in his contemplation). If the statement was made negligently, then he will be liable for any loss which results. The question in *Caparo* was the scope of the assumption of responsibility, and what the limits of liability ought to be.

On a preliminary issue as to whether a duty of care existed in the circumstances as alleged by the plaintiff, the plaintiff was unsuccessful at [first instance](#) but was successful in the [Court of Appeal](#) in establishing a duty of care might exist in the circumstances. Sir Thomas Bingham MR held that as a small shareholder, Caparo was entitled to rely on the accounts. Had Caparo been a simple outside investor, with no stake in the company, it would have had no claim. But because the auditors' work is primarily intended to be for the benefit of the shareholders, and Caparo did in fact have a small stake when it saw the company accounts, its claim was good. This was overturned by the House of Lords, which unanimously held there was no duty of care.

Facts

A company called Fidelity plc, manufacturers of electrical equipment, was the target of a takeover by [Caparo Industries plc](#). Fidelity was not doing well. In March 1984 Fidelity had issued a profit warning, which had halved its share price. In May 1984 Fidelity's directors made a preliminary announcement in its annual profits for the year up to March. This confirmed the position was bad. The share price fell again. At this point Caparo had begun buying up shares in large numbers. In June 1984 the annual accounts, which were done with the help of the accountant Dickman, were issued to the shareholders, which now included Caparo. Caparo reached a shareholding of 29.9% of the company, at which point it made a general offer for the remaining shares, as the City Code's rules on takeovers required. But once it had control, Caparo found that Fidelity's accounts were in an even worse state than had been revealed by the directors or the auditors. It sued Dickman for negligence in preparing the accounts and sought to recover its losses. This was the difference in value between the company as it had and what it would have had if the accounts had been accurate.

Judgment

Court of Appeal

The majority of the Court of Appeal (Bingham LJ and Taylor LJ, O'Connor LJ dissenting) held that a duty was owed by the auditor to shareholders individually, and although it was not necessary to decide that in this case and the judgment was *obiter*, that a duty would not be owed to an outside investor who had no shareholding. Bingham LJ held that, for a duty owed

to shareholders directly, the very purpose of publishing accounts was to inform investors so that they could make choices within a company about how to use their shares. But for outside investors, a relationship of proximity would be "tenuous" at best, and that it would certainly not be "fair, just and reasonable". O'Connor LJ, in dissent, would have held that no duty was owed at all to either group. He used the example of a shareholder and his friend both looking at an account report. He thought that if both went and invested, the friend who had no previous shareholding would certainly not have a sufficiently proximate relationship to the negligent auditor. So it would not be sensible or fair to say that the shareholder did either. Leave was given to appeal.

The "three stage" test, adopted from Sir Neil Lawson in the High Court,^[2] was elaborated by [Bingham LJ](#) (subsequently the Senior Law Lord) in his judgment at the Court of Appeal. In it he extrapolated from previously confusing cases what he thought were three main principles to be applied across the law of negligence for the duty of care.^[3]

"It is not easy, or perhaps possible, to find a single proposition encapsulating a" comprehensive rule to determine when persons are brought into a relationship which creates a duty of care upon those who make statements towards those who may act upon them and when persons are not brought into such a relationship."

Thus the Lord Ordinary, Lord Stewart, in [Twomax Ltd v Dickson, McFarlane & Robinson](#) 1983 SLT 98, 103. Others have spoken to similar effect. In [Hedley Byrne & Co Ltd v Heller & Partners Ltd](#) [1964] AC 465 Lord Hodson said, at p. 514: "I do not think it is possible to catalogue the special features which must be found to exist before the duty of care will arise in a given case," and [Lord Devlin](#) said, at pp. 529-530:

"I do not think it possible to formulate with exactitude all the conditions under which the law will in a specific case imply a voluntary undertaking any more than it is possible to formulate those in which the law will imply a contract."

In [Mutual Life and Citizens' Assurance Co Ltd v Evatt](#) [1971] AC 793 Lord Reid and Lord Morris of Borth-y-Gest said, at p. 810: "In our judgment it is not possible to lay down hard-and-fast rules as to when a duty of care arises in this or in any other class of case where negligence is alleged." In [Rowling v Takaro Properties Ltd](#) [1988] AC 473 , 501, Lord Keith of Kinkel emphasised the need for careful analysis case by case:

"It is at this stage that it is necessary, before concluding that a duty of care should be imposed, to consider all the relevant circumstances. One of the considerations underlying certain recent decisions of the House of Lords ([Governors of the Peabody Donation Fund v Sir Lindsay Parkinson & Co Ltd](#) [1985] A.C. 210) and of the Privy Council ([Yuen Kun Yeu v Attorney-General of Hong Kong](#) [1988] A.C. 175) is the fear that a too literal application of the well-known observation of Lord Wilberforce in [Anns v Merton London Borough Council](#) [1978] AC 728 , 751-752, may be productive of a failure to have regard to, and to analyse and weigh, all the relevant considerations in considering whether it is appropriate that a duty of care should be imposed. Their Lordships consider that question to be of an intensely pragmatic character, well suited for gradual development but requiring most careful analysis. It is one upon which all common law jurisdictions can learn much from each other; because, apart from exceptional cases, no sensible distinction can be drawn in this respect between the various countries and the social conditions existing in them. It is incumbent upon the courts in different jurisdictions to be sensitive to each other's reactions; but what they are all searching for in others, and each of them striving to achieve, is a careful analysis and weighing of the relevant competing considerations."

The many decided cases on this subject, if providing no simple ready-made solution to the question whether or not a duty of care exists, do indicate the requirements to be satisfied before a duty is found.

The first is foreseeability. It is not, and could not be, in issue between these parties that reasonable foreseeability of harm is a necessary ingredient of a relationship in which a duty of care will arise: [Yuen Kun Yeu v Attorney-General of Hong Kong](#) [1988] A.C. 175 , 192A. It is also common ground that reasonable foreseeability, although a necessary, is not a sufficient condition of the existence of a duty. This, as Lord Keith of Kinkel observed in [Hill v Chief Constable of West Yorkshire](#) [1989] A.C. 53 , 60B, has been said almost too frequently to require repetition.

The second requirement is more elusive. It is usually described as proximity, which means not simple physical proximity but extends to

"such close and direct relations that the act complained of directly affects a person whom the person alleged to be bound to take care would know would be directly affected by his careless act:" [Donoghue v Stevenson](#) [1932] A.C. 562 , 581, per [Lord Atkin](#).

Sometimes the alternative expression "neighbourhood" is used, as by [Lord Reid](#) in the [Hedley Byrne case](#) [1964] A.C. 465 , 483 and [Lord Wilberforce](#) in [Anns v Merton London Borough Council](#) [1978] A.C. 728 , 751H, with more conscious reference to Lord Atkin's speech in the earlier case. Sometimes, as in the [Hedley Byrne case](#), attention is concentrated on the existence of a special relationship. Sometimes it is regarded as significant that the parties' relationship is "equivalent to contract" (see the [Hedley Byrne case](#), at p. 529, per Lord Devlin), or falls "only just short of a direct contractual relationship" ([Junior Books Ltd v Veitchi Co Ltd](#) [1983] 1 A.C. 520 , 533B, per [Lord Fraser of Tullybelton](#)), or is "as close as it could be short of actual privity of contract:" see p. 546C, per [Lord Roskill](#). In some cases, and increasingly, reference is made to the voluntary assumption of responsibility: [Muirhead v Industrial Tank Specialities Ltd](#) [1986] Q.B. 507 , 528A, per [Robert Goff L.J.](#); [Yuen Kun Yeu v Attorney-General of Hong Kong](#) [1988] A.C. 175 , 192F, 196G; [Simaan General Contracting v Pilkington Glass Ltd. \(No. 2\)](#) [1988] Q.B. 758 , 781F, 784G; [Greater Nottingham Co-operative Society Ltd v Cementation Piling and Foundations Ltd.](#) [1989] Q.B. 71 , 99, 106, 108. Both the analogy with contract and the assumption of responsibility have been relied upon as a test of proximity in foreign courts as well as our own: see, for example, [Glanzer v Shepard](#) (1922) 135 NE 275 , 276; [Ultramares Corporation v Touche](#) (1931) 174 N.E. 441 , 446; [State Street Trust Co v Ernst](#) (1938) 15 N.E. 2d 416, 418; [Scott Group Ltd v McFarlane](#) [1978] 1 NZLR 553, 567. It may very well be that in tortious claims based on negligent misstatement these notions are particularly apposite. The content of the requirement of proximity, whatever language is used, is not, I think, capable of precise definition. The approach will vary according to the particular facts of the case, as is reflected in the varied language used. But the focus of the inquiry is on the closeness and directness of the relationship between the parties. In determining this, foreseeability must, I think, play an important part: the more obvious it is that A's act or omission will cause harm to B, the less likely a court will be to hold that the relationship of A and B is insufficiently proximate to give rise to a duty of care.

The third requirement to be met before a duty of care will be held to be owed by A to B is that the court should find it just and reasonable to impose such a duty: [Governors of the Peabody Donation Fund v Sir Lindsay Parkinson & Co Ltd](#) [1985] A.C. 210 , 241, per Lord Keith of Kinkel. This requirement, I think, covers very much the same ground as Lord Wilberforce's second stage test in [Anns v Merton London Borough Council](#) [1978] A.C. 728 , 752A, and what in cases such as [Spartan Steel & Alloys Ltd v Martin & Co. \(Contractors\) Ltd](#) [1973] Q.B. 27 and [McLoughlin v O'Brian](#) [1983] 1 A.C. 410 was called policy. It was considerations of this kind which Lord Fraser of Tullybelton had in mind when he said that "some limit or control mechanism has to be imposed upon the liability of a wrongdoer towards those who have suffered economic damage in consequence of his

negligence:" [Candlewood Navigation Corporation Ltd v Mitsui OSK Lines Ltd](#) [1986] AC 1 , 25A. The requirement cannot, perhaps, be better put than it was by Weintraub C.J. in [Goldberg v Housing Authority of the City of Newark](#) (1962) 186 A. 2d 291 , 293:

"Whether a duty exists is ultimately a question of fairness. The inquiry involves a weighing of the relationship of the parties, the nature of the risk, and the public interest in the proposed solution."

If the imposition of a duty on a defendant would be for any reason oppressive, or would expose him, in [Cardozo C.J.](#)'s famous phrase in [Ultramares Corporation v Touche](#), 174 N.E. 441 , 444, "to a liability in an indeterminate amount for an indeterminate time to an indeterminate class," that will weigh heavily, probably conclusively, against the imposition of a duty (if it has not already shown a fatal lack of proximity). On the other hand, a duty will be the more readily found if the defendant is voluntarily exercising a professional skill for reward, if the victim of his carelessness has (in the absence of a duty) no means of redress, if the duty contended for, as in [McLoughlin v O'Brian](#) [1983] 1 A.C. 410 , arises naturally from a duty which already exists or if the imposition of a duty is thought to promote some socially desirable objective.

House of Lords

[Lord Bridge of Harwich](#) who delivered the leading judgment restated the so-called "Caparo test" which Bingham LJ had formulated below. His decision was, following O'Connor LJ's dissent in the Court of Appeal, that no duty was owed at all, either to existing shareholders or to future investors by a negligent auditor. The purpose of the statutory requirement for an audit of public companies under the [Companies Act 1985](#) was the making of a report to enable shareholders to exercise their class rights in general meeting. It did not extend to the provision of information to assist shareholders in the making of decisions as to future investment in the company.

He said that the principles have developed since [Anns v Merton London Borough Council](#).^[4] Indeed, even [Lord Wilberforce](#) had subsequently recognised that foreseeability alone was not a sufficient test of proximity. It is necessary to consider the particular circumstances and relationships which exist.

Lord Bridge then proceeded to analyse the particular facts of the case based upon principles of proximity and relationship. He referred approvingly to the dissenting judgment of [Lord Justice Denning](#) (as he then was) in [Candler v Crane, Christmas & Co](#) [1951] 2 KB 164 where Denning LJ held that the relationship must be one where the [accountant](#) or auditor preparing the accounts was aware of the particular person and purpose for which the accounts being prepared would be used.

There could not be a duty owed in respect of "liability in an indeterminate amount for an indeterminate time to an indeterminate class" ([Ultramares Corp v Touche](#),^[5] per Cardozo C.J [New York Court of Appeals](#)). Applying those principles, the defendants owed no [duty of care](#) to potential investors in the company who might acquire shares in the company on the basis of the audited accounts.

Although it was not necessary to decide the matter, it would seem unlikely that shareholders independently would have any right of action against the auditors for [negligently](#) prepared accounts even if they chose to dispose of their shares on the basis of those accounts. The company itself would have a right of action for any loss it suffered as a result of those accounts being negligently prepared.

[Lord Oliver](#) and [Lord Jauncey](#), Lord Roskill and Lord Ackner agreed.

Significance

- The judgment overturned the decision of a judge at first instance in [*JEB Fasteners Ltd v Marks Bloom & Co.*](#)^[6]
- *Caparo* and its extent were further discussed in [*Her Majesty's Commissioners of Customs and Excise v Barclays Bank Plc*](#)^[7] and [*Moore Stephens v Stone Rolls Ltd.*](#)^[8]
- In New Zealand, *Caparo* stands in disagreement with a decision of the [*New Zealand Court of Appeal*](#) in [*Scott Group Ltd v McFarlane.*](#)^[9] In both of these cases a duty of care was found in substantially similar circumstances.
- In Australia, *Caparo* was followed in [*Esanda Finance Corporation Ltd v Peat Marwick Hungerfords.*](#)^[10] *Caparo* is also noted for the comments made as to the analysis of [*Brennan J*](#) of the [*Australian High Court*](#) in [*Council of the Shire of Sutherland v Heyman*](#)^[11] espousing the proposition that the law should develop novel categories of negligence 'incrementally and by analogy with established categories'. That observation was subsequently rejected in [*Sullivan v Moody.*](#)^[12]
- In Canada, *Caparo* was followed in [*Hercules Managements Ltd. v. Ernst & Young.*](#)^[13] [*Cooper v Hobart*](#)^[14] is sometimes acknowledged to be the Canadian equivalent of *Caparo*.