

## Caparo Industries v Dickman [1990] 2 AC 605

<https://lawcasesummaries.com/knowledge-base/caparo-industries-v-dickman-1990-2-ac-605/>

### Facts

- Accountants prepared annual audit statements for a company (as required by law), which stated the company had made a profit.
- These statements were - unbeknownst to the auditors - later relied upon by Caparo, who purchased shares in the company. It turned out that the statements were wrong, and the company had actually made a substantial loss.
- Caparo sued for negligent misstatement, alleging he had sustained loss because of the negligence of the accountants.
- At first instance, Dickman succeeded. This decision was appealed.

### Issue

- Did the auditors owe the shareholder a duty of care?

### Held

- The House of Lords upheld the appeal, holding that there was no duty of care owed to the shareholder.
- This was a significant departure (or refinement) of the principle in *Donoghue v Stephenson*.
- Lord Bridge carefully considered the proximity between the auditors and shareholder. He noted that the accounts had been prepared for the corporation as required by statute, not for the benefit of would-be shareholders. In fact, the auditors did not know of the existence of Caparo.
- He referred approvingly to earlier comments of Lord Denning (in dissent) stating that negligence should not apply to an "indeterminate time to an indeterminate class". It was very relevant that the accounts had not been prepared for the purposes that Caparo used them for.
- Lord Bridge stated that you must look beyond just **who** it is reasonably foreseeable could be affected by an act, but also what kind of damage they may sustain.
- Therefore the test for negligence was amended to a three part test, known as the *Caparo* test:
  - Harm to the Plaintiff, by the Defendants' actions, must be reasonably foreseeable
  - There must be sufficient proximity between the Plaintiff and the Defendant
  - It must be fair, just and reasonable to impose liability on the Defendant.

### Significance

- This case was a significant decision in the law of negligence, as it established the three part Caparo test as mentioned above.
- This decision was followed in Australia in *Esanda Finance Corporation Ltd v Peat Marwick*

*Hungerfords*, and in Canada in *Hercules Managements Ltd. v. Ernst & Young*

- However, it has not been followed in New Zealand (*Scott Group Ltd v McFarlane*)

## **Full text**

- Full text of the decision can be found here: <https://www.bailii.org/uk/cases/UKHL/1990/2.html>

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