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Government failure to set unlimited liability a missed opportunity, says IoD

The Government's response to the consultation on director and auditor liability does not address all the problems, the Institute of Directors (IoD) said today, as directors and auditors will still be subject to unlimited liability.

Commenting on the Government's response to the recent DTI consultation, Patricia Peter, Head of Corporate Governance at the Institute of Directors, said:

"The Government has not had the courage to address the basic problem of the unlimited liability faced by directors. Recruitment of top quality directors will remain a problem until directors know the limits on their potential liability. By not grasping this opportunity the stated aim of increasing diversity on boards will not be helped.

"While we welcome the proposals to simplify and extend the ability of companies to indemnify their directors against legal costs and, in the case of actions by third parties, the financial costs of adverse judgements, directors still face ruin for innocent mistakes."

Commenting on the detail of the proposed reforms, the IoD said:

* Sections 310 and 727 of the Companies Act 1985 have been identified by the IoD as needing reform for a number of years. Amendment of these sections will help directors to take a robust line when faced with claims where they are confident of their case. The funding of the defence should cease to be a factor in deciding whether to defend a claim.

* The proposal to allow companies to indemnify directors against the financial as well as the legal costs of third party claims will particularly help directors of companies with US listings where such third party claims are increasingly commonplace.

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