What is the point of limited liability?

Published: January 12, 2026, 9:04 pm

I do seriously wonder of the concept of limited liability has reached the end of viability.

Two examples have made me ponder this weekend. The first is the tale of Iceland where the people of that state have voted by 93.1% to not accept liability to the UKI and the Netherlands for debts due by failed banks registered in their state. The UK and Netherlands have bailed out those depositors. Now they want the people of Iceland to repay them even though the banks in question had limited liability. And they have said no, they can't wand won't pay. I happen to think they're right to do so. The UK and Netherlands should have regulated sales into their states, but more importantly, people who have no link with a bank are not liable for its debts. If they are, then the concept of the company is radically transformed.

Second is the tale of the UK's private / public partnership to upgrade London's tube line. This has failed in all but name. As the Guardian notes:

An exchange of letters between LU, the government and the PPP contract referee, seen by the Guardian, indicate that the publicly owned tube operator will have to make multimillion-pound spending cuts, raise fares or cut back on network upgrades to plug a £400m funding gap in the troubled contract with Tube Lines — the last surviving PPP contractor.

Again the message is clear: the private sector fails and the bill is picked up by the state.

Several important things become clear.

First, banking cannot just be a domestic regulatory issue.

Second, small states can't regulate banks operating internationally. Actually, that extends to financial services as a whole.

Third, apparently limited liability is in these situations meaningless: we are all providers of capital, whether we know it or not.

Fourth, in that case the relationship between companies and those who engage with them has to be radically transformed. This transformation would involve a reappraisal of what capital is, who provides it and what the duty to report might be. What is quite clear is that the providers of capital in the cases noted are not the shareholders, conventional lenders or even recorded creditors. The International Accounting Standards Board says that the users of accounts (which they use as a proxy for those with interest in companies) are:

The primary user group includes both present and potential equity investors, lenders, and other creditors, regardless of how they obtained, or will obtain, their interests. In the framework, the terms capital providers and claimants are used interchangeably to refer to the primary user group.

Well in that case we are all providers of capital to many companies. How does that, then, change the perception of reporting?

This is a key issue and the professions aren't engaging with it.

Why not?