

## Limited liability is permeable after all - shareholders...

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A couple of days ago [I suggested that limited liability should be removed from a company](#) in the event that it abused certain standards if they were made contrary to law. So, for example, if the maximum ratio of high to low pay in a company was made subject to a law and that ratio was breached I suggested limited liability should be withdrawn from the shareholders of the company, and that the principle should be extended to other issues, such as failing to file accounts and tax returns.

The idea was, almost inevitably, pooh-poohed by the nay-sayers as impossible to implement. But they're wrong. Within a couple of days the idea has clear legal backing. As the [FT reports this morning](#):

*The UK's fraud investigator intends to confiscate shareholder dividends paid by companies convicted of criminal offences, after it won approval for a landmark court action.*

*The Serious Fraud Office won a civil recovery order on Thursday against the principal shareholder of a company that had admitted corruption .*

*Mabey Engineering Holding agreed to repay the £131,201 dividend it received from Mabey & Johnson, which built bridges in Iraq and [admitted corruption and breaches of UN sanctions in 2009](#) . Two former Mabey & Johnson executives went to prison after the company reported their behaviour to the SFO. The agreement, approved by the High Court and seen by the Financial Times, marks the first time that the SFO has tried to recover proceeds of crime by targeting dividends paid in the UK.*

While the sum confiscated by the SFO is relatively small, lawyers warned that the precedent it set was potentially huge.

“Under the existing proceeds of crime legislation, the SFO is actually able to do this, which is an alarming proposition for innocent third-party investors,” said Jonathan Fisher QC, a barrister specialising in financial crime. “Intellectually it’s unassailable but if it happened on a large scale it could undermine people’s pension funds.”

Precisely so, and exactly as suggested. The principle of limited liability has been breached here and the shareholder made responsible for the crime of the company. Now let's do it more often.