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Rukhadze judgment a timely reminder of fiduciary duties and the 'profit rule'

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In a much anticipated and significant judgment, the United Kingdom Supreme Court this week confirmed in Rukhadze and Others v Recovery Partners GP Ltd and another [2025] UKSC 10 that the existing law requiring errant fiduciaries to account to their principal for any profits which they obtain by virtue of their role remains appropriate and, indeed, is in the ascendant.

In Rukhadze, three impugned directors were found at first instance to have exploited a business opportunity available to their principal company, Recovery Partners, and in so doing obtained a net profit of USD 179m.

After being permitted an equitable allowance reflective of their work and skill, they were ordered to pay the remaining USD 134m plus interest to Recovery Partners.

After unsuccessfully appealing to the Court of Appeal, the directors appealed to the Supreme Court, where they argued, amongst other things, that the long settled so-called 'profit rule' was both unduly severe and old fashioned. They argued that the introduction of a ‘but for’ element to the test for liability would cure these defects.

Whilst the seven members of the Supreme Court differed in their reasoning, the appeal was unanimously dismissed. It is clear, therefore, that the 'profits rule' and its consequences survive notwithstanding their accepted severity. Indeed, it is apparent that severity is a central part of its continuing attraction.

Fiduciaries, whether trustees or directors, should therefore heed the decision in Rukhadze as a timely reminder that the courts are unlikely to sympathise with those who deviate from their core duty of 'single-minded loyalty' to profit at their principal's expense and that the consequences of so doing, whether in the civil or regulatory sphere, remain severe.

Particular care should be taken by those who, in the ordinary course of their business, owe fiduciary duties to many similar entities each of whom could conceivably take advantage of any business opportunities of which the fiduciary becomes aware.

Moreover, local fiduciaries should note that the spectre of reputational damage arising from litigation (and impliedly therefore regulatory action) has been rejected as a sufficient deterrent to breaches of duty. Monetary awards, commensurate with the profits improperly obtained by the fiduciary, remain, in the Supreme Court's view, the most effective deterrent and will no doubt remain the default remedy.

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Collas Crill has a breadth of experience in advising both fiduciaries and principals on contentious matters such as these. Please contact a member of the team listed to the right of the screen for more information.

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COLLAS CRILL

For more information please contact:



Gareth Bell

Guernsey Managing Partner (Advocate) | Guernsey

t: +44 (0) 1481 734214 | **e:** gareth.bell@collascrill.com



Edmund Carter

Associate* | Guernsey

t: +44 (0) 1481 734293 | **e:** edmund.carter@collascrill.com

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