



Centro decision has broad implications for boards

The Australian Securities and Investment Commission's (ASIC) successful prosecution of Centro directors will lead to considerable introspection within boardrooms around Australia as directors ponder the extent of their responsibilities.

On Monday Federal Court Judge Justice Middleton ruled that eight directors of the Centro Group breached sections of the Corporations Act by approving the groups financial statements in the 2006/07 financial year. Justice Middleton found that the directors had breached their corporate duties because they had “failed to take all reasonable steps required of them, and acted in the performance of their duties as directors without exercising the degree of care and diligence the law requires of them.”

A clear ramification of this decision is that company directors need to have a deep understanding of financial statements of their companies. They are also expected to question, not blindly rely on information provided to them by the company's financial and legal advisors.

It is likely that some boards will assess the capability and commitment of individual members. This will result in a shakeup of many boards as directors resign due to insufficient financial knowledge or because given their new understanding of their responsibilities they now find themselves overcommitted.

One issue highlighted by the decision which has not been picked up by the media is that directors being investigated by ASIC under a Section 19 hearing need to get good legal advice as derivative evidence from these hearings can lead to prosecution.

Should you have any questions or would like further advice, please contact:

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