



Department for
Business, Energy
& Industrial Strategy

Kelly Tolhurst MP

Department for Business, Energy &
Industrial Strategy
1 Victoria Street
London
SW1H 0ET

Frank Field MP
Chair, Work and Pensions Committee
House of Commons
London
SW1A 0AA

T +44 (0) 20 7215 5000
E enquiries@beis.gov.uk
W www.gov.uk

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Dear Frank

I am writing to let you know that I am today publishing the Government's response to its recent *Insolvency and Corporate Governance* consultation and attach a copy for your information.

As you are aware, the UK has an international reputation for its insolvency and corporate governance frameworks. However, recent high-profile failures demonstrate there is scope to improve these frameworks further. The *Insolvency and Corporate Governance* consultation sought views on where improvements could be made and attracted over 90 substantive responses.

The Government's response sets out important new measures to address weaknesses in our insolvency regime. It also includes a full response to the *Review of the Corporate Insolvency Framework* consultation held in 2016. The principal insolvency measures are:

- Steps to sharpen the accountability of group directors when selling businesses in distress whilst ensuring that measures do not disincentivise business rescue or unfairly hold directors liable for the conduct of others;
- Legislation to enhance existing recovery powers to ensure all creditors are treated fairly when money has been removed from a company prior to insolvency;
- Legislation to tackle "phoenixism" by giving the Insolvency Service new powers to investigate the directors of dissolved companies when they are suspected of having acted in breach of their legal obligations;
- The introduction of a new moratorium to help business rescue by giving financially distressed companies which are ultimately viable, a period of relief from creditor giving it time to restructure or seek new investment;

- Measures to prevent the untimely withdrawal of essential supplies to financially distressed companies to allow them to continue trading whilst seeking to restructure or seek new investment;
- The creation of a new restructuring vehicle that would include the ability to bind dissenting classes of creditors who vote against it.

The Government's consultation also sought views on aspects of corporate governance that appear to have been contributory factors in recent major corporate failures. The consultation did not set out specific measures or proposals but generated a wide range of views and ideas from respondents. In response to this feedback, government will now take forward the following more specific actions, which will be subject to further consultation or discussion with stakeholders where necessary:

- Address complexity in group structures by taking steps to ensure that there is more transparency for investors about how complex group companies are structured, managed and governed;
- Strengthen shareholder oversight of companies by working with investors to incorporate stewardship duties within the mandates given to asset managers by asset owners, and establishing safe channels through which institutional investors can escalate concerns about the directors' management of a company;
- Address concerns about unsupportable dividend payments through more information for investors about capital allocation and how dividends fit with pension deficit payments, investment and other calls on a company's capital. I have also asked the Investment Association to establish whether action is needed to ensure that all companies are giving their shareholders an annual vote on dividends;
- Raise boardroom standards by taking steps to improve the quality of external board evaluations, including the development of a code of practice. We will also develop and bring forward proposals for strengthening access to training and guidance for directors, particularly in relation to their legal duties.

The steps being announced today reinforce other work across government aimed at strengthening the UK's corporate governance and insolvency frameworks.

We have already successfully implemented most of the corporate governance reform package announced last August, including the passage of legislation introducing CEO pay ratio reporting and a requirement for boards to explain how they have had regard to employee and other stakeholder interests. As you know, Sir John Kingman is carrying out an independent review of the Financial Reporting Council which is looking at the organisation's role, remit and powers and is due to report at the end of the year.

In addition, pension reform is being taken forward by the Department of Work and Pensions, including consultation on proposals to give the Pensions Regulator new powers to prevent and punish those recklessly endangering a defined benefit pension scheme. There is also continuing work to improve the protection of companies in the supply chain – particularly with regard to late payments

I am very grateful to your Committee for the thoughtful and considered joint report on Carillion which gathered a wide range of evidence and was very useful in develop our thinking. I look

forward to further discussions in the autumn as we take forward the measures announced today.

I am depositing the Government Response in the House library.

Yours sincerely

A handwritten signature in blue ink that reads "Kelly Tolhurst". The signature is written in a cursive style with a horizontal line underlining the name.

KELLY TOLHURST MP
Minister for Small Business, Consumers & Corporate Responsibility