Press release: New powers to give greater protection to staff and small suppliers in insolvent businesses

- Directors selling companies recklessly to face tough new sanctions including fines and disqualification
- Creditors could have money returned to them by reversing inappropriate asset stripping
- Directors dissolving companies to dodge debts and avoid facing accusations of misconduct to face investigation for the first time
- Strengthening corporate responsibility will enhance the UK’s business environment and ensure it remains one of the best places to start and grow a business

The government today (Tuesday 20 March) will launch a consultation to improve the UK’s corporate governance framework and ensure the highest standards of behaviour in those who lead and control companies in, or approaching, insolvency.

The vast majority of UK companies are run fairly and responsibly, but a small number of recent corporate governance failures have raised concerns that company directors can unfairly shield themselves from the effects of insolvency and – in the worst cases – profit from business failures while workers and small suppliers lose out.

Following last year’s corporate governance reforms to increase boardroom accountability and transparency of big business, the government will today raise standards even further by setting out proposals to crack down on directors and employers behaving irresponsibly. These include:

- clawing back money for creditors including workers and small suppliers by reversing inappropriate asset stripping of companies on the verge of insolvency
- disqualifying and or holding directors personally liable when found to have sold a struggling company or subsidiary recklessly or knowing it would fail
- giving the Insolvency Service new powers to investigate directors of dissolved companies
- consideration of the legal and technical framework within which decisions are made on payment of dividends, and how it could be improved and made more transparent
- strengthening the role and responsibilities of shareholders in stewarding the companies in which they have investments.

These reforms seek to respond in a balanced and proportionate way to help reinforce public trust and confidence in businesses and further strengthen the UK’s business environment which is a key part of the UK’s Industrial

Strategy, the government's long-term plan to build a Britain fit for the future. They will also help to ensure the UK remains one of the best places to start and grow a business and is an attractive place to invest.

Business Secretary Greg Clark said:

> Britain has a good reputation internationally for being a dependable place to do business, based on required high standards. This framework has been regularly upgraded and in the light of some recent corporate failures I believe the lessons should be learned and applied.
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> These reforms will give the regulatory authorities much stronger powers to come down hard on abuse and to make irresponsible directors bear the consequences of their actions.

The government will publish the Insolvency and Corporate Governance consultation later today setting out some of these proposals in more detail. It will also seek views on new ways to protect payments to smaller firms in a supply chain which can be hit hardest when large companies become insolvent.

The government is already taking action on this issue by:

- considering whether further action is needed to prevent the misuse of contract clauses, typically in the construction sector, allowing large firms to withhold payments as a surety against defects
- committing to launch a call for evidence on how to eliminate unfair payment practices to small businesses.

This package of reforms follows last year's corporate governance reforms which sought to increase boardroom accountability.

The government has already:

- supported the Investment Association's world-first public register of FTSE-listed companies where more than one fifth of shareholders have opposed resolutions on executive pay packages and other issues
- appointed James Wates to chair a new group drawing up the UK's first-ever set of corporate governance principles for large private companies
- ensuring that employee and other stakeholder voices are heard and taken into account in boardroom decision-making

In the coming months the government will introduce new laws requiring:

- listed companies to reveal the pay ratio between bosses and employees
- all companies of a significant size to publicly explain how their directors take employees' and other stakeholders' interests into account
- all companies of a significant size to make their corporate governance arrangements public

1. Whenever a corporate insolvency occurs the conduct of the directors of

the company is considered. Directors can be disqualified for up to 15 years if their conduct is found to make them unfit to be involved in the management of a company.

2. Insolvency Service is a government agency, helping to deliver economic confidence by supporting those in financial distress, tackling financial wrongdoing and maximising returns to creditors.
3. The Insolvency Service disqualifies around 1,200 irresponsible directors a year, protecting creditors from an estimated total £137 million in losses.