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RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

Dear colleague,

I am writing to inform you that the Government has today published its White Paper for consultation on reform of audit, company reporting and corporate governance.

British business is built on trust. It is vital that our leading companies can command the confidence of financial markets and the investment community as the UK recovers from the effects of Covid-19. Transparency and good governance underpin a vibrant, modern economy and, in the wake of recent corporate failures, I am determined to reinforce the UK's position as a world-class destination for investment. This is why the Government is taking steps to modernise the UK's audit and corporate governance regime and to ensure that investors, employees and consumers have an accurate picture of the health of the UK's leading companies.

The White Paper sets out a comprehensive package of reforms which will improve reporting, audit and governance in the UK's largest companies. These reforms respond to recommendations made by the three independent reviews conducted by Sir John Kingman, Sir Donald Brydon and the Competition and Markets Authority and, together, they lay the foundations for British companies to build back stronger as the UK recovers from the effects of Covid-19. In line with the Government's climate change commitments, they also encourage companies to focus on long-term success and resilience, promoting purposeful business that will benefit individual companies and the wider economy.

The key proposals, which we are publishing for consultation, are to:

- recognise the economic importance of the largest privately-owned companies by ensuring they meet the highest governance and reporting standards;
- make directors of the country's biggest companies more accountable when they breach their duties, with the prospect of fines or bans only when there are serious failings, such as misleading accounts or hiding

information from auditors. This measure is targeted at the very largest companies in the UK, not start-ups and small businesses, and would not affect the vast majority of directors. Instead, it reflects the level of responsibility that comes with a board position in the largest companies;

- address “rewards for failure” through mechanisms to claw bonuses back following misconduct or management failures;
- increase choice and strengthen governance in the audit market – through the introduction of a ‘managed shared audit’ requirement for FTSE 350 companies, and requiring an operational separation of audit and non-audit practices; and
- increase transparency and the usefulness of company reporting, including the possibility of having a wider range of company metrics audited, such as climate disclosures.

These proposals will be backed by a strong and independent statutory authority for audit, corporate reporting and governance. Replacing the Financial Reporting Council, the new regulator will be tasked with protecting users of financial information by ensuring that those who prepare and assure reports are held to high standards.

Together, these reforms will drive up standards, safeguard British jobs and will place the UK economy on a stronger footing to face tomorrow’s challenges. In light of the current challenging circumstances for companies, the consultation period will run for 16 weeks and the subsequent reforms will be introduced over an appropriate timetable.

I hope that you will support these important proposals.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kwasi Kwarteng', written in a cursive style.

RT HON KWASI KWARTENG MP
Secretary of State for Business, Energy & Industrial Strategy