

Dated: 1st April 2020

GOVERNMENT RELAXATION OF FINANCIAL SOLVENCY RULES DURING PANDEMIC

The government plans to introduce emergency changes to overhaul insolvency laws and give “breathing space” to companies hit by the coronavirus crisis, Alok Sharma, the business secretary has announced, in a move to help prevent mass failures.

Laws that make it illegal for a business to trade when it is insolvent are set to be suspended. The decision means companies and individuals that cannot meet their debts because of the coronavirus pandemic will not be forced to file for insolvency.

Current insolvency rules make it a civil offense for directors of limited liability companies to continue to trade when they are not certain that their businesses can continue to meet their debts, with directors becoming personally liable, the Department for Business, Energy and Industrial Strategy said in a statement.

Amendments to wrongful trading rules will protect directors during the pandemic by allowing companies to continue buying supplies, such as energy, raw materials or broadband, while they attempt a rescue, the government said.

The suspension will be put in place retrospectively from March 1 for three months.

The Institute of Chartered Accountants in England and Wales (ICAEW) also welcomed the changes. A spokesperson for the ICAEW said, “This is a pragmatic move and a useful addition to the government's strategy to protect employment and prosperity. The proposed moratorium will definitely help some businesses survive but we would encourage any directors with concerns about their company to seek professional advice at the earliest opportunity.”

We will keep you updated when we have further Government advice.