Regulatory Policy Committee	**Validation of the One-in, Two-out Status and the Net Direct Impact on Business**
Validation Impact Assessment (IA)	Changes to reporting on the conduct of directors by insolvency office-holders
Lead Department/Agency	Insolvency Service, Department for Business, Innovation and Skills
IA Number	N/A
Origin	Domestic
Expected date of implementation	SNR11
Date of Regulatory Triage Confirmation	Not applicable – Red Tape Challenge
Date submitted to RPC	22 July 2014
Date of RPC Validation	1 August 2014
RPC reference	RPC14-BIS-2139
Departmental Assessment	
One-in, Two-out status	OUT
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	-£3.38 million
RPC assessment	**VALIDATED**

Summary RPC comments

The Validation IA is fit for purpose. The RPC confirms that this is a deregulatory measure and is in scope of One-in, Two-out (OITO). The impact on business is the time saved by insolvency practitioners in completing and submitting the new electronic form, as opposed to the current statutory paper forms. The Department has adequately estimated the equivalent net savings to business as £3.38 million each year. The Department anticipates that these savings will ultimately be passed on to creditors in insolvency cases.

Background (extracts from IA)

What is the problem under consideration? Why is government intervention necessary?

"When a company has entered into formal insolvency proceedings, insolvency practitioners (IPs) have a duty to report on director misconduct and are required to use two outdated statutory forms, D1:full report, to report misconduct or D2: interim or final return. Information from IPs can vary in timeliness and quality. Legislative change is required to update and streamline the reporting process; replacing statutory paper forms with a single, electronic return, alerting the Secretary of State (SoS) at an earlier stage to director misconduct and enabling a move to a more responsive, intelligence-led enforcement process."

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What are the policy objectives and the intended effects?

"The policy objective is to improve the process for reporting director misconduct. The intended effects include:

- ***Streamlined reporting*** *- single electronic return, digital by default;*
- ***Earlier investigation of miscreant directors*** *- IPs reporting misconduct indicators earlier; more efficient investigation and enforcement outcomes; and*
- ***Increasing consumer confidence and protection*** *- earlier focus on appropriate cases."*

RPC comments

The proposal is to change the system for insolvency practitioners to report on the conduct of directors of insolvent companies by replacing two outdated statutory paper forms with a single, shorter, non-statutory electronic form.

Currently in insolvency cases, the insolvency practitioner is required to make a return to Insolvency Service confirming that they have investigated director misconduct. Where no misconduct is found, insolvency practitioners are required to complete a D2 form (11,536 completed each year). Where misconduct is found, insolvency practitioners are required to complete a D1 form (4997 completed each year). In submitting a D1 report, the insolvency practitioner must be satisfied that there is evidence of unfit conduct, which can result in a considerable amount of investigative work by the insolvency practitioner.

The IA says that a single electronic return made in all cases would streamline the process, make it easier to understand, and be more time efficient.

The benefits to business are based on the time savings from reporting in the shortened electronic format. Where no misconduct is identified, the time saving will be 1 hour per return compared to the time it takes to complete the current D2 form. Where misconduct is identified, the time saving will be 2.25 hours compared to the time it takes to complete the current D1 form.

The large time saving associated with the D1 form stems from the fact that insolvency practitioners no longer have to present evidence to support their assessment that there may be director misconduct. However, this reduced need for evidence also increases the likelihood that director misconduct will be more readily reported. The Department has assessed that the split between misconduct/no misconduct reporting will increase from 30:70 to 40:60. The estimated annual savings take into account the anticipated increase in misconduct reporting.

The Department estimates the saving to business at £4.28 million each year. This saving outweighs the estimated one-off familiarisation cost of £0.87 million.

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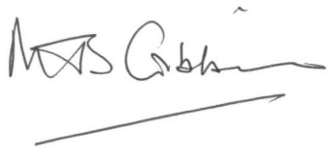
<table>
<tr><td colspan="3">The estimates used to calculate time savings are derived from consultation responses, which have been checked against information provided by R3, which is the industry body for insolvency practitioners. The Committee is satisfied that these estimates are realistic.

The Insolvency Service anticipates that cost savings will ultimately be passed on to creditors in insolvency cases. This result would be indirect.

On the basis of the information provided, we are able to validate the estimated equivalent net saving to business (EANCB) of £3.38 million.</td></tr>
<tr><td>Signed</td><td></td><td>Michael Gibbons, Chairman</td></tr>
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