



Statement of Insolvency Practice 16

Scotland

PRE-PACKAGED SALES IN ADMINISTRATIONS

Introduction

1. The term 'pre-packaged sale' refers to an arrangement under which the sale of all or part of a company's business or assets is negotiated with a purchaser prior to the appointment of an administrator and the administrator effects the sale immediately on, or shortly after, appointment.
2. The particular nature of an insolvency practitioner's position in these circumstances renders transparency in all dealings of primary importance. Administration is a collective insolvency proceeding - creditors and other interested parties should be confident that the insolvency practitioner has acted professionally and with objectivity; failure to demonstrate this clearly may bring the insolvency practitioner and the profession into disrepute.
3. An insolvency practitioner should recognise the high level interest the public and the business community have in pre-packaged sales in administration. The insolvency practitioner should assume, and plan for, greater interest in and possible scrutiny of such sales where the directors and/or shareholders of the purchasing entity are the same as, or are connected parties of, the insolvent entity.
4. It is equally important that the insolvency practitioner acts and is seen to be acting in the interests of the company's creditors as a whole and is able to demonstrate this.

Principles

5. An insolvency practitioner should differentiate clearly the roles that are associated with an administration that involves a pre-packaged sale, that is, the provision of advice to the company before any formal appointment and the functions and responsibilities of the administrator following appointment. The roles are to be explained to the directors and the creditors. For the purposes of this Statement of Insolvency Practice only, the role of "insolvency practitioner" is to be read as relating to the advisory engagement that an insolvency practitioner or their firm and or/any associates may have with a company in the period prior to the company entering administration. The role of "administrator" is to be read as the formal appointment as administrator after the company has entered administration. An insolvency practitioner should recognise that a different insolvency practitioner may be the eventual administrator.
6. The administrator should provide creditors with sufficient information ("the SIP 16 statement") such that a reasonable and informed third party would conclude that the pre-packaged sale was appropriate and that the administrator has acted with due regard for the creditors' interests. In a connected party transaction the level of detail may need to be greater.

Key compliance standards

Preparatory work

7. An insolvency practitioner should be clear about the nature and extent of the role of advisor in the pre-appointment period. When instructed to advise the company or companies in a group, the insolvency practitioner should make it clear that the role is not to advise the directors or any parties connected with the purchaser, who should be encouraged to take independent advice. This is particularly important if there is a possibility that the directors may acquire an interest in the business or assets in a pre-packaged sale.
8. An insolvency practitioner should bear in mind the duties and obligations which are owed to creditors in the pre-appointment period. The insolvency practitioner should recognise the potential liability which may attach to any person who is party to a decision that causes a company to incur credit and who knows that there is no good reason to believe it will be repaid. Such liability is not restricted to the directors.
9. The insolvency practitioner should ensure that any connected party considering a pre-packaged purchase is aware of their ability to approach the pre-pack pool (see appendix) and the potential for enhanced stakeholder confidence from the connected party approaching the pre-pack pool and preparing a viability statement for the purchasing entity.
10. An insolvency practitioner should keep a detailed record of the reasoning behind both the decision to undertake a pre-packaged sale and all alternatives considered.
11. The insolvency practitioner should advise the company that any valuations obtained should be carried out by appropriate independent valuers and/or advisors, carrying adequate professional indemnity insurance for the valuation performed.
12. If the administrator relies on a valuation or advice other than by an appropriate independent valuer and/or advisor with adequate professional indemnity insurance this should be disclosed and with the reason for doing so and the reasons that the administrator was satisfied with the valuation, explained.

Marketing

13. Marketing a business is an important element in ensuring that the best available consideration is obtained for it in the interests of the company's creditors as a whole, and will be a key factor in providing reassurance to creditors. The insolvency practitioner should advise the company that any marketing should conform to the marketing essentials as set out in the appendix to this Statement of Insolvency Practice.
14. Where there has been deviation from any of the marketing essentials, the administrator is to explain how a different strategy has delivered the best available outcome.

After appointment

15. When considering the manner of disposal of the business or assets the administrator should be able to demonstrate that the duties of an administrator under the legislation have been met.

Disclosure

16. An administrator should provide creditors with a detailed narrative explanation and justification (the SIP 16 statement) of why a pre-packaged sale was undertaken and all alternatives considered, to demonstrate that the administrator has acted with due regard for their interests. The information disclosure requirements in the appendix should be included in the SIP 16 statement unless there are exceptional circumstances, in which case the administrator should explain why the information has not been provided. In any sale involving a connected party, it

is very unlikely that commercial confidentiality alone would outweigh the need for creditors to be provided with this information.

17. The explanation of the pre-packaged sale in the SIP 16 Statement should be provided with the first notification to creditors and in any event within seven calendar days of the transaction. If the administrator has been unable to meet this requirement, the administrator will provide a reasonable explanation for the delay. The SIP 16 statement should be included in the administrator's statement of proposals filed at Companies House.
18. The administrator should recognise that, if creditors have had to wait until, or near, the statutory deadline for the proposals to be issued there may be some confusion on the part of creditors when they do receive them, the sale having been completed some time before. Accordingly, when a pre-packaged sale has been undertaken, the administrator should seek any requisite approval of the proposals as soon as practicable after appointment and, ideally, the proposals should be sent with the notification of the sale. If the administrator has been unable to meet this requirement the proposals should include an explanation for the delay.
19. The Insolvency Act 1986 and the Insolvency (Northern Ireland) Order 1989 permits an administrator not to disclose information in certain limited circumstances. This Statement of Insolvency Practice will not restrict the effect of those statutory provisions.

Effective date: This SIP applies to insolvency appointments starting on or after **1 November 2015**

Appendix

MARKETING ESSENTIALS

Marketing a business is an important element in ensuring that the best available consideration is obtained for it in the interests of creditors, and will be a key factor in providing reassurance to creditors. Any marketing should conform to the following:

- **Broadcast** – the business should be marketed as widely as possible proportionate to the nature and size of the business – the purpose of the marketing is to make the business's availability known to the widest group of potential purchasers in the time available, using whatever media or other sources are likely to achieve this outcome.
- **Justify the marketing strategy** – the statement to creditors should not simply be a list of what marketing has been undertaken. It should explain the reasons underpinning the marketing and media strategy used.
- **Independence** – where the business has been marketed by the company prior to the insolvency practitioner being instructed, this should not be used as a justification in itself to avoid further marketing. The administrator should be satisfied as to the adequacy and independence of the marketing undertaken.
- **Publicise rather than simply publish** – marketing should have been undertaken for an appropriate length of time to satisfy the administrator that the best available outcome for creditors as a whole in all the circumstances has been achieved. Creditors should be informed of the reason for the length of time settled upon.
- **Connectivity** – include online communication alongside other media by default. The internet offers one of the widest populations of any medium. If the business is not marketed via the internet, this should be justified.
- **Comply or explain** – particularly with sales to connected parties where the level of interest is at its highest, the administrator needs to explain how the marketing strategy has achieved the best available outcome for creditors as a whole in all the circumstances.

Information disclosure requirements in the SIP 16 statement

The administrator should include a statement explaining the statutory purpose pursued, confirming that the transaction enables the statutory purpose to be achieved and that the outcome achieved was the best available outcome for creditors as a whole in all the circumstances.

The following information should be included in the administrator's explanation of a pre-packaged sale, as far as the administrator is aware after making appropriate enquiries:

Initial introductions

The source (to be named) of the initial introduction to the insolvency practitioner and the date of the administrator's initial introduction.

Pre-appointment matters

The extent of the administrator's (and that of their firm, and/or any associates) involvement prior to appointment.

The alternative options considered, both prior to and within formal insolvency by the insolvency practitioner and the company, and on appointment the administrator with an explanation of the possible outcomes.

Whether efforts were made to consult with major or representative creditors and the upshot of any consultations. If no consultation took place, the administrator should explain the reasons.

Why it was not appropriate to trade the business and offer it for sale as a going concern during the administration.

Details of requests made to potential funders to fund working capital requirements. If no such requests were made, explain why.

Details of registered charges with dates of creation.

If the business or business assets have been acquired from an insolvency process within the previous 24 months, or longer if the administrator deems that relevant to creditors' understanding, the administrator should disclose both the details of that transaction and whether the administrator, administrator's firm or associates were involved.

Marketing of the business and assets

The marketing activities conducted by the company and/or the administrator and the effect of those activities. Reference should be made to the marketing essentials above. Any divergence from these essentials is to be drawn to creditor's attention, with the reasons for such divergence, together with an explanation as to why the administrator relied upon the marketing conducted.

Valuation of the business and assets

The names and professional qualifications of any valuers and /or advisors and confirmation that they have confirmed their independence and that they carry adequate professional indemnity insurance. In the unlikely event that valuers and /or advisors who do not meet these criteria have been employed, the reasons for doing so should be explained.

The valuations obtained for the business or its underlying assets. Where goodwill has been valued, an explanation and basis for the value given.

A summary of the basis of valuation adopted by the administrator or the valuers and/or advisors.

The rationale for the basis of the valuations obtained and an explanation of the value achieved of the assets compared to those valuations.

If no valuation has been obtained, the reason for not having done so and how the administrator was satisfied as to the value of the assets.

The transaction

The date of the transaction.

Purchaser and related parties

- The identity of the purchaser.
- Any connection between the purchaser and the directors, shareholders or secured creditors of the company or their associates.
- The names of any directors, or former directors (or their associates), of the company who are involved in the management, financing, or ownership of the purchasing entity, or of any other entity into which any of the assets are transferred.

- In transactions impacting on more than one related company (e.g. a group transaction) the administrator should ensure that the disclosure is sufficient to enable a transparent explanation (for instance, allocation of consideration paid).
- Whether any directors had given guarantees for amounts due from the company to a prior financier and whether that financier is financing the new business.

Assets

- Details of the assets involved and the nature of the transaction.

Sale consideration

- The consideration for the transaction, terms of payment and any condition of the contract that could materially affect the consideration.
- The consideration disclosed under broad asset valuation categories and split between fixed and floating charge realisations (where applicable) and the method by which this allocation of consideration was applied.
- Any options, buy-back agreements, deferred consideration or other conditions attached to the transaction.
- Details of any security taken by the administrator in respect of any deferred consideration. Where no such security has been taken, the administrator's reasons for this and the basis for the decision that none was required.
- If the sale is part of a wider transaction, a description of the other aspects of the transaction.

Connected Party transactions only

Where the sale has been undertaken to a connected party the additional details should be included in the SIP 16 statement.

In this context only, a connected party is as defined in section 249 and 435 of the Insolvency Act 1986 and Article 7 and Article 4 of the Insolvency (NI) Order 1989, provided that in determining whether any person or company has control under section 435(10) and Article 4(10), sales to secured lenders who hold security for the granting of the loan (with related voting rights) as part of the secured lender's normal business activities, over one third or more of the shares in the insolvent company, are not included.

Pre-pack pool

The administrator should include one of the following in the SIP 16 statement –

- a statement that the pre-pack pool has been approached by the connected party, or not;
- a statement that the administrator has requested a copy of the opinion given by the pool member.

If an opinion is made by the pre –pack pool and is provided by the connected party to the administrator, a copy of that opinion is to be included within the SIP 16 statement, clearly stating the date of that opinion.

Viability statement

A viability review can be drawn up by a connected party wishing to make a pre-packaged purchase, stating how the purchasing entity will survive for at least 12 months from the date of the proposed purchase. The connected party should consider providing a short narrative detailing what

the purchasing entity will do differently in order that the business will not fail ("the viability statement).

The administrator should request that the connected party considering a pre-packaged purchase provide a copy of their viability statement.

- If provided, it should be attached to the SIP 16 statement.
- If the viability statement has been requested but not provided, the administrator should notify creditors of this in the SIP 16 statement.