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UK businesses set for more confidence in pre-packs as reforms begin

Directors, shareholders and others connected with an insolvent company can now have their acquisition of its business through a 'pre-pack' sale reviewed by an independent 'pool' of experts – in a move to improve transparency in UK business rescue.

Pre-packs, which involve the sale of a struggling business being negotiated before it is put into administration and being completed by the administrators shortly after their appointment, are the subject of a package of reforms being launched today.

The reforms follow the recommendations of an independent review into pre-packs for the government by Teresa Graham CBE in 2014.

The report acknowledged the economic benefits of pre-packs and highlighted the need for greater transparency for creditors, employees and directors in the process, particularly when businesses are sold to so-called 'connected parties' – those who are already involved with the company.

The reforms, which also include new guidance on marketing proposed 'pre-packed' businesses to third parties to get a better deal for creditors, are backed by creditor groups, government, the insolvency profession, and regulators.

They include **ACCA**, the **British Property Federation**, the **British Printing Industries Federation**, **CARB**, the **Chartered Institute of Credit Management**, **ICAEW**, **ICAS**, the **Insolvency Practitioners Association**, the **Insolvency Service**, the **Institute of Directors**, and insolvency trade body, **R3**.

Duncan Grubb, director of Pre-Pack Pool Limited, the body responsible for the Pool, and former chair of the British Property Federation's insolvency committee says: "Pre-pack administrations are an important part of the economy, helping rescue businesses and jobs. Business owners and creditors, however, need to trust and have confidence in the process, which is why big steps are being taken to improve transparency."

"The reforms strike a balance between transparency and the discretion needed for business and job rescue. While the Pool is voluntary and its opinions are not binding, it will reassure creditors about the reasonableness of the pre-pack transaction and its justification in the circumstances. And with enhanced guidance for directors on marketing and valuations, creditors can have more confidence that a pre-pack sale achieves the best deal for them too. As a whole, today's reforms will further boost confidence in the UK's internationally-admired insolvency regime."

Anna Soubry, Minister for Small Business, Industry and Enterprise, says: "Business rescue is an important part of our entrepreneurial culture and anything that brings clarity, transparency and trust for creditors is to be welcomed. These measures, including the pre-pack pool, are a significant step towards increasing creditor confidence in pre-packs, particularly involving sales to connected parties."

"The economic benefits of pre-packs, including saving jobs, are widely acknowledged and the fact that these reforms have the support of trade bodies, industry groups, regulators and creditor groups, shows that it is possible to balance increasing trust in the pre-pack process with giving businesses a second chance."

Last year some 20,000 businesses went through an insolvency process, with less than 5% involving a pre-pack. Around two-thirds of those pre-packs involve purchasers already connected to the insolvent company, and it is in these cases that the additional scrutiny provided by the Pool will be beneficial.

Author of last year's review into pre packs, Teresa Graham CBE, says: "I believe the changes to SIP16, and the added confidence that creditors will gain from the independent scrutiny by

experienced business people of connected party pre-pack sales, will transform trust in pre-pack insolvency as a form of business rescue.”

“I am delighted that the government, insolvency profession and creditors have delivered these reforms, and I am hopeful that those contemplating a connected pre-pack will make full use of the voluntary elements.”

The Pool is open to directors and other ‘connected parties’ hoping to purchase a company out of administration through a pre-pack sale.

Application to the Pre-Pack Pool is voluntary and connected parties will be made aware of the Pool by an insolvency practitioner. The pool is made up of 20 independent senior business experts who will deliver a response within 48 hours.

The Pool’s response to applications will be made available to creditors.

Pre-pack Pool explained

- The connected party will make an application to the Pre-pack Pool via a secure, online portal.
- Based on the information submitted, the independent Pre-pack Pool reviewer will issue one of three opinions:
 - The pre-pack is not unreasonable
 - The case for a pre-pack is not unreasonable but there are minor limitations in the evidence provided
 - Case for pre-pack not made
- The Pre-pack Pool works on a user-pays principle. The process will cost £800 + VAT per application.
- The opinion will be provided to creditors once the business sale has been completed.
- There are also new practice requirements for insolvency practitioners on how they and company directors market and value struggling businesses, to ensure the best possible return can be achieved for creditors from a business sale.

ENDS

Notes to editors:

- For media enquiries please contact **Duncan Grubb, Pre-Pack Pool Ltd** on info@prepackpool.co.uk
- [Read Teresa Graham’s review into pre-pack administrations \(June 2014\)](#)
- Learn more about the Pre-pack Pool on the [Pre-pack Pool website](#)
- The Pre-pack Pool’s website is www.prepackpool.co.uk

Further comment is available from...

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