

# BARRINGTONS

Licensed Insolvency Practitioners  
Business Rescue, Recovery & Turnaround

## E-mail News Release

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### “Rip-off or recovery”?

When a company goes into liquidation, its assets are put up for sale to create a cash fund for creditors, and the directors of the liquidated company are often the most likely buyers, particularly if they intend setting back up in business. Recently, there has been a spate of publicity surrounding what is being called a 'pre-pack'. But, what exactly is a pre-pack? A general definition would be where the sale of a business is negotiated prior to the appointment of an administrator, with completion of the sale taking place immediately following the administrator's appointment.

*Commenting, Phil Wood, managing director of chartered accountants and licensed insolvency practitioners said “The idea of selling a business back to management as part of an insolvency process is nothing new. However, Pre-packs have recently become subject to somewhat negative media comment due to the perceived lack of transparency, and the appearance of it being an easy way for directors to acquire the good bits of the business back from an insolvent position at a cheap cost, and avoid accrued liabilities.”*

On 1st January 2009, a new directive known as SIP16 was imposed by the insolvency regulators, setting out requirements to be fulfilled by insolvency practitioners involved in pre-packs. It is intended to show transparency and avoid any abuse of the process. The Insolvency Service has also responded by carrying out spot checks on specific cases to identify any abuse. Examples have been quoted of directors walking into the offices of insolvency practitioners and specifically asking for a pre-pack, simply to avoid the company's debts.

*“Despite all this and on the assumption that best practice is closely followed, Pre-packs can be a very effective business rescue tool if utilised appropriately,” added Phil.*

**ENDS**

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