Recalibrating the Company Voluntary Arrangement

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1. Background and usage of the Company Voluntary Arrangement

This paper draws together the issues identified as affecting the use of the Company Voluntary Arrangement (CVA) from the ten year (approvals during 2006 to 2015) study data.[2] It explains the rationale behind the recommendations to improve the use and efficiency of the CVA procedure. The use and outcome data from the study revealed that although the CVA volume is falling numerically,[3] it is increasing as a percentage of the formal rescue market (administrations and CVAs),[4] while also increasingly resulting in more fully implemented arrangements.[5] Despite these improvements, the study data also identified a series of potential causes for the continued low level of CVA usage.[6] The areas highlighted included insolvency practitioner (IP) bias, along with financial and structural issues that hinder the use of the CVA by smaller businesses, and in particular the micro business.[7]

[1] This paper contains extracts from thesis data on the role of the CVA as part of the UK rescue culture. Note that this paper is intended to complement the presentation slides presented to the Insolvency Service Research Conference in November 2021 and is not a summary of the data presented on the day in the slides. See Sue Morgan *Rescuing Companies or Creditors: The role of the CVA in the rescue culture*, Chapter 6, sections 6.13 and 6.14 (available on the University of Nottingham eThesis website from 1 July 2022).

[2] ibid, *Introduction* sections 4 to 6 pp 10-16.

[3] See n 1, Figure 2, p 6.

[4] See n 1, Figure 3.5, p 113.

[5] See n 1, Figure 3.6, p 114.

[6] See n 1, Conclusion, *The CVA and the rescue culture,* section 2 *Factors influencing CVA usage,* pp 243-247.

[7] Accounts filed at Companies House (CH) are given a size designation by the presenter based on the various disclosure regulations. The small company status was introduced in 2006 and the micro enterprise status was added later in 2013. For the relevant accounting requirements see: The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008; The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008; The Partnerships (Accounts) Regulations 2008; The Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012; The Small Companies (Micro-Entities Accounts) Regulations 2013. In the Companies Act 2006 for micro companies see ss384A-B introduced in 2013; for small size companies see ss381-384; and for medium size companies see s465 Companies Act 2006. Large companies are any that exceed the limit restrictions in two or more of the categories. Group sizes are dealt with separately but for the purposes of this study if the whole group are

The causes and solutions discussed are two pronged: (1) increasing the use of the procedure by micro businesses[8] by facilitating better support from creditors, and (2) improving the professional training for IPs on the use of the CVA to aid potential growth.[9] The solution includes a number of complementary areas that also affect creditor engagement, covering the method and level of communication.[10] Creditor communication covers a wide range of documents including both the clarity and timeliness of creditor reporting in relation to office-holder actions and financial matters.[11]

2. How to increase the use of the CVA

The analysis of the data on the use of the CVA by IPs identified potential unconscious bias and the influence that training and experience could have on increasing the use of the CVA.[12] Further, the data analysis revealed a number of structural issues that disadvantage micro companies in distress, and which result in the relatively low

involved in the CVA then they are treated as a CVA group. In the case where only one group company is in a CVA then they are treated as individual companies and the relevant parameters applied. Companies with dormant accounts filed or no accounts filed are kept as separate categories. The company size parameters require any two of the three criteria to be met: (1) a micro enterprise limits include less than 10 employees, gross assets of less than £316,000 and turnover of less than £632,000; (2) a small enterprise limits include less than 50 employees, gross assets of less than £3.26 million or turnover of less £6.5 million; (3) a medium enterprise limits include less than 250 employees, gross assets of less than £18 million or turnover of less than £36 million; (4) Large size includes all companies with two of the three criteria exceeding the medium size company limits. Turnover and gross asset thresholds for a small company changed on 1 January 2016 and increased to £10.2 million and £5.1 million respectively. The employee thresholds remain the same. For parent companies claiming the small group status the new thresholds from 1 January 2016 are £10.2 million and £5.1 million respectively. The latter changes will not impact on the research data analysis as a uniform measure has been used throughout the study period for comparative purposes.

[8] See n 1, Chapter 6 *The role of the company in the Company Voluntary Arrangement,* sections 6.13 and 6.14.

[9] See n 1, Chapter 4 *The impact of the Insolvency Practitioner on the Company Voluntary Arrangement*, section 4.6.

[10] See n 1, Chapter 5 *Creditor participation in the Company Voluntary Arrangement,* section 5.8.

[11] See n 1, Chapter 3 *The Company Voluntary Arrangement: identifying characteristics and measuring outcomes* and in particular section 3.10 on *Creditor trust and the Insolvency Practitioner*, and section 3.11 on *Costs and Distributions*. See also Yvonne Joyce (2019) *Building Trust in Crisis Management: A Study of Insolvency Practitioners and the Role of Accounting Information and Processes,* Contemporary Accounting Research, Vol 37, No 3 (Fall 2020), 1622-1657, and see also the article by Yvonne Joyce and Eileen Maclean, *The quality of IP reporting: a cause of creditor confusion?* Recovery, January 2020, R3, London. Full research article available online at https:/onlinelibrary.wiley.com/doi/abs/10.1111/1911-2846.12577.

[12] See n 1, Chapter 4 *The impact of the Insolvency Practitioner on the Company Voluntary Arrangement*.

percentage of micro CVAs when compared to the UK average of over 80%.[13] The structural issues identified for micro companies include the initial costs and a lack of the accounting expertise[14] needed to produce the relevant financial data for a draft CVA proposal. The potential bias of the IP, as well as the influence of the company directors, may result in the CVA option being discounted in early discussions of options, with preference given to a liquidation that allows the directors to buy back the key assets and continue trading in an alternative form or similarly the use of a 'prepack' administration. A combined effort is required to improve IP training, alongside the introduction of a simplified CVA protocol specifically designed for micro undertakings.[15]

The actions described would encourage use of an alternative simple and cheap rescue option[16] and the data indicates more CVA experience is required by IPs in order to help them identify when it should be pursued more often as an option.[17] The current educational requirement without any experience is insufficient without additional support e.g. firm support and improving the experience level would ensure all IPs have a cross section of relevant experience, rather than a narrow focus on administration or liquidation in the corporate market sector.[18]

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[13] See n 1, Chapter 6, Section 6.4 (when published) *Company size and related elements* and in particular Figure 6.2, a comparison between business volumes by size and CVA volumes by size, also see the data located at https://www.gov.uk/government/statistics/business-population-estimates-2020.

[14] Accounting expertise in this context relates to the skill set of the management teams and their resources.

[15] A micro undertaking is currently defined under section 384A CA2006. The micro undertaking must comply with two of the three limits: (1) turnover must not be more than £632,000; (2) gross assets on the balance sheets must not be more than £316,000; and (3) the number of employees must not be more than 10. The term undertaking is defined in section 1161 CA2006. For the purposes of the Companies Act provisions the definition of undertaking includes all entities registered at Companies House including: limited liability companies, unlimited companies, companies limited by guarantee and limited liability partnerships.

[16] See n 1, Chapter 1 *The Rescue Culture*. It should be noted that the original aim for the CVA set out in the Cork Report was as a cheap alternative of a Scheme for small businesses.

[17] See n 1, Chapter 4 *The impact of the Insolvency Practitioner on the Company Voluntary Arrangement,* section 4.3 (when published) *The background and experience of IPs and their firms.*

[18] It is recognised that there are some practical difficulties in this suggestion but as with other types of regulation requiring specific experience this could be overcome by some firms offering secondments during the training periods which would also share best practice across the profession.

Further, a mandatory comparison with the CVA should be required alongside liquidation when considering the purpose and outcome for every administration proposal. This would be particularly important for all designated small or micro businesses, and so the business size should be an additional disclosure requirement across all insolvency reporting. However, the main recommendation in this paper and the related presentation is the creation of a micro CVA protocol (Micro Protocol), designed to improve use of the voluntary arrangement for micro undertakings. Figure 1 shows the combined data on CVA usage by company size and IP firm experience.[19]

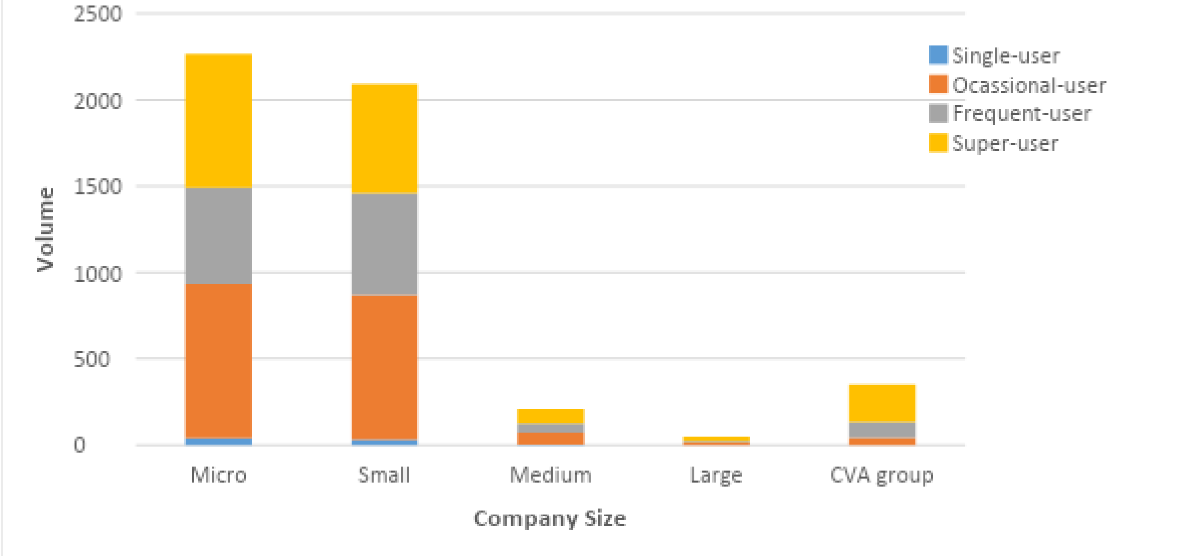

Figure 1CVA volume by company size and IP firm type

Source: See Sue Morgan *Rescuing Companies or Creditors: The role of the CVA in the rescue culture*, data tables 1.2.2 and 9.3.1.

The low volume of micro company CVAs across all types of IP firms confirms that this is a profession wide issue, but that super-user firms could make the largest impact in terms of volume.[20] The suggested format for the proposed Micro Protocol is based on the IVA protocol agreement, but with some additional alterations to recognise that its use is

[19] See n 1, Chapter 3 *The Company Voluntary Arrangement: identifying characteristics and measuring outcomes* and Chapter 4 *The impact of the Insolvency Practitioner on the Company Voluntary Arrangement*. Note that IP and IP firm size was categorised in the study data as super-users, frequent-users, occasional-users and single-users.

[20] See n 1, Chapter 4 *The impact of the Insolvency Practitioner on the Company Voluntary Arrangement,* section 4.3 (when published) *The background and experience of IPs and their firms, Figure 4.1.*

restricted to micro undertakings.[21] The following is a step by step explanation of phases 2 and 3 of the suggested new process and a diagram setting out the chronology of the Micro Protocol by phase is included at Appendix 1.

1. New Interim moratorium (Phase 2)

   The Micro Protocol would commence with a combined 'micro' interim moratorium that would be implemented automatically on the request of the directors. The nominee would simply be required to file a statement confirming that (a) the company is a micro undertaking, together with (b) the director's sworn statement of affairs[22] (SoA). The latter providing the evidence of insolvency including the level and type of creditor involvement.

2. Filing of documents (Phase 2)

   Both documents would simply be filed with the Registrar of Companies, as well as the nominee appointment being gazetted to alert creditors to the appointment.

   There would also be a requirement to file a declaration in court to provide notice that any ongoing legal action should be stayed, and that new actions should not be commenced during the moratorium period until the CVA is approved or rejected. The filing would give the nominee 28 days to agree the final proposal terms with the directors, as opposed to the current process where directors are formally responsible for the proposal being drafted.

3. Nominee role (Phase 2)

   Unlike a normal CVA, the nominee will not be required to comment on the efficacy and fairness of the proposal to the court. This is because the protocol compliant

[21] See the Insolvency Service IVA protocol documents which are available at https://www.gov.uk/government/publications/individual-voluntary-arrangement-iva-protocol

[22] See rule 1.5 IR86 for the contents of the Statement of Affairs (relevant to the review period.

format must be used and confirmed by the nominee alongside the confirmation that the business is a micro undertaking.[23]

4. Circulation of proposal and Statement of Affairs (Phase 2)

   The proposal must then be circulated and approved by creditors as normal, within the twenty-eight day moratorium deadline, but using a streamlined approval process. All associated and connected parties must be separately identified on the SoA.

5. Voting arrangements (Phase 2)

   The normal rules on requisite majorities would continue to apply, but with the formal agreement from HMRC that they will automatically support every micro protocol proposal[24] submitted, as long as the standard conditions for micro undertakings are used and the main terms fall within the agreed protocol limits.[25]

6. Type of proposal and terms (Phase 2)

   To simplify the payment terms, the Micro Protocol must be designated as having either a contribution or distribution purpose.[26] The level of contributions required must represent a minimum of at least 1.5 times the available assets in the event of a liquidation, per the statement of affairs amounts. The total minimum contribution level should be based on asset values and calculated before costs. The fees and costs should be separately estimated for comparison purposes in the proposal.

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[23] See section 1161 Companies Act 2006. For the purposes of the Companies Act provisions this description includes all entities registered at Companies House including: limited liability companies, unlimited companies, companies limited by guarantee and limited liability partnerships.

[24] This is particularly important as HMRC PAYE debts became preferential from 1 December 2020 effectively taking the lion's share of any realisations before the non-preferential creditors get paid.

[25] See n 1, Chapter 5 *Creditor participation in the Company Voluntary Arrangement,* section 5.4 (when published) *HMRC voting patterns*. Currently HMRC are rejecting circa 40% of draft proposals and given their change in status from 1 December 2020 they will become the majority recipient of distributions in the majority of CVAs

[26] See n 1, Chapter 3 *The Company Voluntary Arrangement: identifying characteristics and measuring outcomes* for a detailed description of a contribution and distribution CVA.

7. Duration (Phase 2)

The duration of the arrangement will depend on the ability of the business to make the agreed contributions and in addition reimburse the nominee and supervisor costs, which for the Micro Protocol must be either a set fee or based on a percentage of realisations and distributions made in each period. However the duration should be kept as short as possible but with sufficient time for full implementation.[27] Figure 2 shows the different durations by legal outcome with the majority of SCM CVAs lasting less than 3 years being terminated.

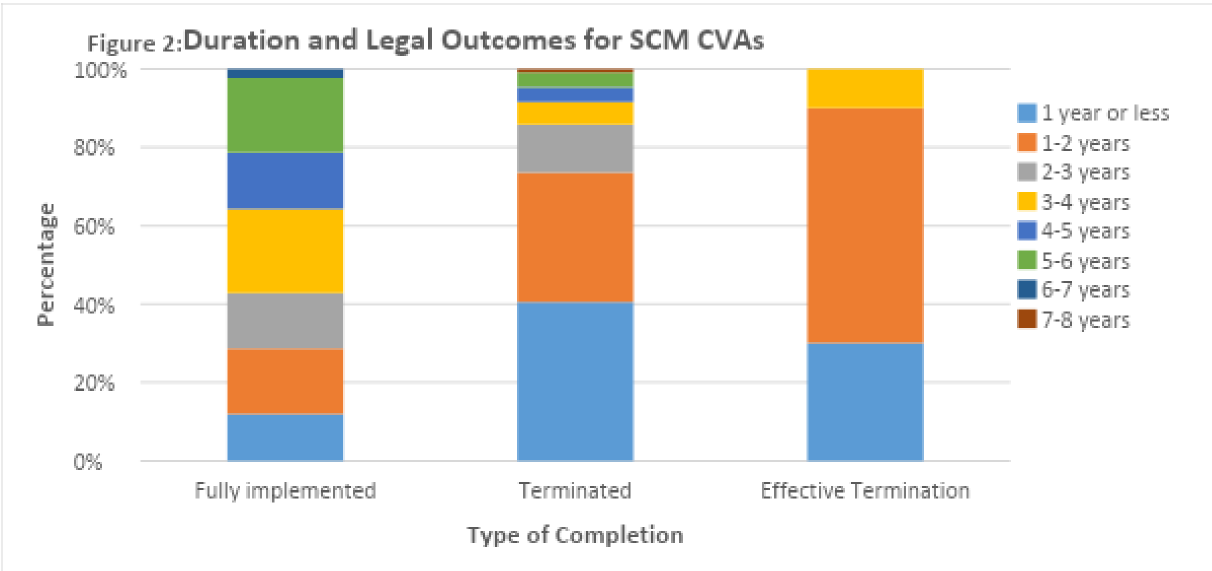

Figure 2: **Duration and Legal Outcomes for SCM CVAs**

Source: See Sue Morgan *Rescuing Companies or Creditors: The role of the CVA in the rescue culture*, data tables 4.1.2 (legal outcomes) and 4.1.3 (duration).

8. Separate decisions by creditors (Phase 2)

The contributions and duration should be separately identified in the terms, and agreed by the creditors as separate resolutions. The terms can also include an extended period during which no contributions will be required, subject to supervisor agreement, with the exact terms being based on a business plan prepared with the assistance of the nominee and maintained during any subsequent annual reviews.

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[27] Note that the optimum duration will depend on the type of proposal with distribution arrangements being considerably shorter than contribution arrangements.

9. Transparency when a proposal is rejected (Phase 2)

   The proposed procedure provides additional transparency as currently only approvals are filed with the Registrar of Companies.[28]

10. Accounts (Phase 3)

    Annual accounts should continue to be prepared and filed with the Registrar of Companies.

11. Treatment of Costs (Phase 3)

    As regards costs, all the approved expenses must be paid, in addition to the agreed contributions for distribution.

    Any unpaid costs should not reduce the amounts to be distributed on completion or termination.

12. Annual Reporting including costs and expenses (Phase 3)

    All expenses incurred must be reported annually and be in accordance with the proposed terms. Any additional expenses or increase in amounts must be separately approved on an annual basis or on termination. The costs must also include any other direct costs incurred, which must also be specified and included within the agreed terms.[29]

    The key variables must be clearly stated in a summary of terms and confirmed to be within the Micro Protocol agreement by the nominee.

[28] The new Companies House form CVA1 is an improvement to form 1.1 but could usefully require a summary of the terms to be attached together with the voting schedule.

[29] See n 1, Chapter 7 *Recalibrating the Company Voluntary Arrangement,* section 7.7 on reducing costs. Costs may also include items such as the specific penalty bond, gazette and other items where these are billed direct to the insolvent estate. The status of direct cost billing for effectively overhead expenses has been the subject of an unresolved review process by the professional bodies for many years.

13. Requirements for Distribution only proposal (Phase 3)

Similarly for a distribution[30] CVA, the same basic principles should apply with details of the person or organisation funding the arrangement and the source of the funds being provided.[31] The distribution level must again be clearly stated in the proposal summary, and filed with the Registrar of Companies on approval by the appointed supervisor.

14. Updating information

In addition, any changes in creditors or their claims from the SoA filed at the outset must be reported and details of those updates filed with the Registrar of Companies annually, alongside any distributions made.

15. Reporting distributions

The level and amount of each distribution should be clearly reported within or attached to each receipts and payments account in accordance with SIP 7.

A list of creditors' approved claims and distributions paid must also be filed with the final report and completion statement for transparency.

16. Final Reports

Termination events and completion dates are likely to continue to be different, and the supervisor should continue to inform creditors as soon as a termination event has occurred. This is in contrast to the actual completion, which is signalled by the final report.[32] The final report must disclose the total distribution of all the funds received.

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[30] See n 1, Chapter 3 *The Company Voluntary Arrangement: identifying characteristics and measuring outcomes* for a full explanation of a distribution CVA.

[31] For example if the business is being sold the terms of the sale and a full disclosure of any relationships should be provided in line with SIP 13 on connected party sales and in a similar manner to the SIP 16 requirements for the administration prepack sale of business.

[32] There is a separate requirement to provide a formal completion statement which must be filed in court and with the Registrar of Companies identifying the termination events. This is often confused with the final report

17. Treatment of Associated and Connected Parties (clarifying exclusions)

The SoA must also identify all associated and connected party creditors from the outset and, where these are excluded from any final distribution, must be clearly identified as such in the lists provided. Further, the status of any creditors excluded from the arrangement must be stated and confirmation provided on their ongoing status post completion. The reference to status will identify if they will remain creditors of the company or whether the debt is intended to be written off in part or its entirety under the CVA terms.

The approval process under the Micro Protocol should be streamlined and take into account the privacy wishes of each creditor voting, to comply with the general data protection act principles on contact.[33] This has been considered a grey area until now, and should be clarified to avoid overzealous management teams from crossing a line into potential harassment when campaigning for support. The approval process should consist of a single online electronic vote, with the same requisite majority as required for all CVAs including the non-associated creditors test for rejection levels.[34] Creditors should be allowed to change their votes up to the end of the decision day regardless of the voting process. This allows the opportunity to change their vote in the event new information or a clarification of terms is provided, while also being able to indicate if they want to allow contact by other creditors or the company. Online voting data should remain confidential to the nominee, and not be shared with any other parties unless agreement of the creditor has been given. There would be no opportunity for

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and both are filed together that results in either the certificate being late or the final report being filed before final distributions have been made.

[33] See specifically the Data Protection Act 2018 in respect of rights for individuals and the restrictions on office-holders (rule 4.150 for liquidations) from soliciting for some types of appointment which will result in a financial benefit for the IP. See also Chapter 2, section 2.3 on the ethical considerations that apply to accepting an insolvency appointment.

[34] See n 1, Chapter 2 *The Statutory and Regulatory Framework of the Company Voluntary Arrangement*, sections 2.2 and 2.4.2 which sets out the approval process for a CVA.

modifications to the main terms at this stage (excluding a change of supervisor), as any modifications of the terms must be agreed with any major creditors during the pre-approval moratorium period. The reporting of the voting process would be simplified and include details of the actual votes together with a copy of the summary terms.

Creditors would also be encouraged to report any unwanted contact or offer of inducements to change their votes. Both documents must be filed indicating the outcome clearly, both in terms of the approval of the proposal and separately the approval of the fees and costs that can be charged. Any outstanding director's loans should be taken into account in the summary of terms document, together with details of the director's remuneration. To restrict abuse, once used the Micro Protocol should not be used again within two years of a similar arrangement being approved. Rather than trying to propose a new arrangement in the case of unforeseen circumstances, such as ill health, then a variation of the terms can be requested using the same voting process. However, the terms must remain within the Micro Protocol agreement. Termination events must be simply stated and ranked in priority, thereby avoiding the current problem of contradictory terms being agreed. However, as currently, new debt should not be allowed to accumulate to pay off the old debt, especially in contribution arrangements, and the annual review should confirm the continuing solvency status of the business. Diagram 2 summarises the suggested new process described above.

The Micro Protocol suggested here should be differentiated from the suggested SME Covid-19 CVA protocol,[35] which has been proposed as a short-term solution for the potential economic impact of the current pandemic. The Covid-19 version fails to target

[35] See K&L Gates article *COVID-19: UK Insolvency Reform - Standardising Company Voluntary Arrangement Proposals*, Lexology, published 3 November 2020. Also see the R3 standard terms for Covid-19 CVAs published in October 2020. The article is available at https://www.lexology.com/library/detail.aspx?g=0f52fa11-6017-46fa-8e74-72584e764e6a&utm_source=Lexology+Daily+Newsfeed&utm_medium=HTML+email+-+Body++General+section&utm_campaign=Lexology+subscriber+daily+feed&utm_content=Lexology+Daily+Newsfeed+2020-11-05&utm_term=

the specific size of business.[36] A solution based on size is more likely to stand the test of time once the Covid-19 pandemic has run its course. The Micro Protocol is designed to level the playing field specifically and permanently,[37] and make a long-term structural change to the CVA market by increasing the use of the procedure by the smallest businesses. Micro undertakings make up over 80% of the businesses in the UK,[38] whereas they represent just under half the population of the CVA market in the study data.[39] The frequent-user and super-user IP firms are relatively small in number, and they should be encouraged to be involved in the suggested recommendation to increase the volume of micro company CVAs.[40] Equally, those IP firms that similarly specialise in liquidations and administrations should also be approached to increase their experience of the CVA procedure and add it to their options toolkit. The Micro Protocol will provide additional clarity on the level of CVAs being rejected,[41] and ensure that there is transparency for creditor voting.

3. The role of the moratorium

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[36] The proposed COVID protocol does not differentiate by business size nor does it address the other structural issues such as costs.

[37] A micro undertaking is currently defined under section 384A CA2006. The undertaking must comply with two of the three limits: (1) turnover must not be more than £632,000; (2) gross assets on the balance sheets must not be more than £316,000; and (3) the number of employees must not be more than 10.

[38] See n 1, Chapter 6, *The role of the company in the Company Voluntary Arrangement* and specifically footnotes 22 and 23 in that chapter in relation to the business population data.

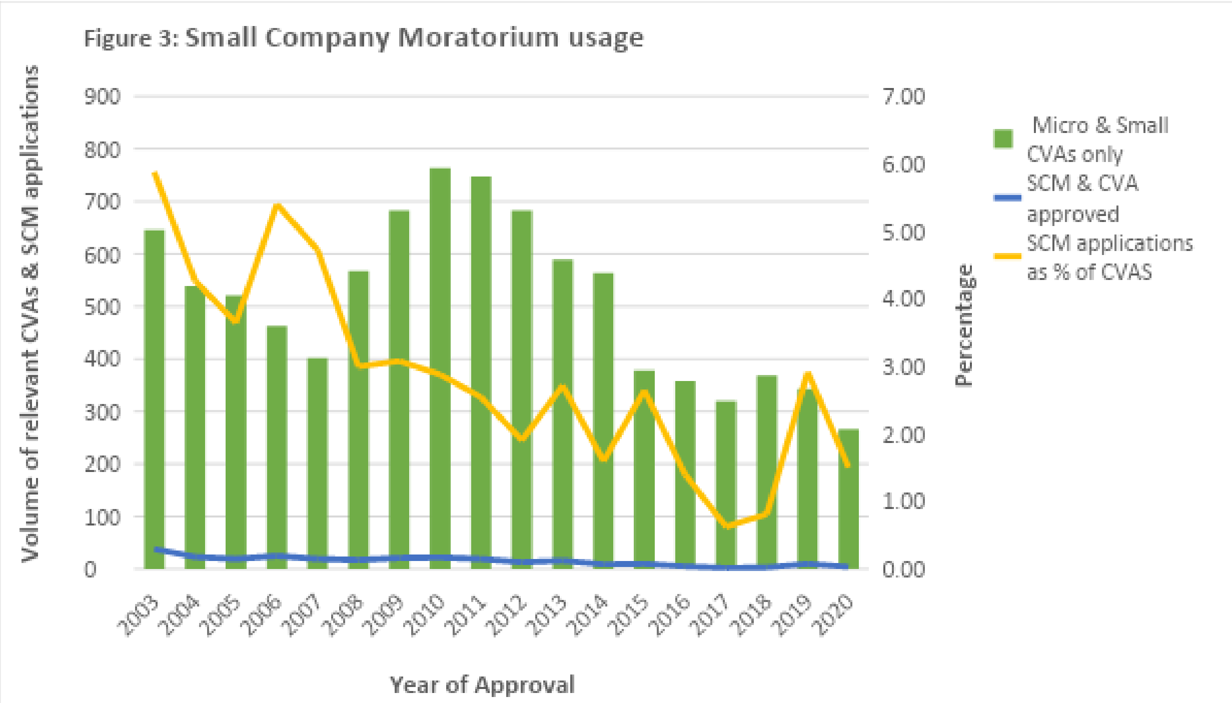
[39] See n 1, Chapter 6, *The role of the company in the Company Voluntary Arrangement*, section 6.1, Figure 6.1. Micro companies make up just under 45% in the study data whereas they represent over 80% of the relevant business population estimates.

[40] See n 1, Chapter 4 *The impact of the Insolvency Practitioner on the Company Voluntary Arrangement* for a detailed explanation of the analysis by 'super-user' and 'frequent-user' IP firms.

[41] Rejected CVAs will require a separate and additional Companies House cover sheet for the statistical data to be monitored.

The use of the Schedule A1 small company moratorium (SCM)[42] was analysed as part of the study data[43] alongside the replacement Part 1A separate general Moratorium procedure[44] which replaced the SCM in 2020. The administration procedure is used both pre and post CVAs and its role depends in the rescue is linked to the type of CVA. A CVA post administration is invariably a distribution mechanism with the administration procedure providing the overall strategy however, in a few cases the key intention was to use the administration as a moratorium with the CVA providing the exit route to returning the company to its management team. In most of these cases the company size excluded these from using the SCM process instead.[45]

As part of the suggested Micro Protocol, it is proposed that a new interim micro moratorium is introduced. It would use a much simpler set of requirements, to allow time for a proposal to be drafted and agreed while automatically preventing pre-emptive creditor enforcement action. The process would act in a similar way to the notice of



outcomes, Section 3.4 Interaction with administration procedure, Figure 3.4 The legal outcome of distribution CVAs and Figure 3.10 Post CVA administrations by office-holder; and Section 3.5 The impact of using a moratorium, Figure 3.11.

[44] See CIGA 2020.

[45] In the study data there were 246 examples out of 6,400 CVAs where the ADM was used pre CVA and of those 219 were fully implemented as a result. See also n 43 in relation to the identification of distribution CVAs and their implementation rates.

intention to appoint in an administration procedure.[46] It is recommended that the interim micro company moratorium is provided automatically, with the only requirement being a simple filing process of an up to date statement of affairs. It would make provision for a maximum of 28 days while the nominee prepares the proposal[47] for the business, rather than the directors having to complete the proposal before requesting a moratorium, as previously required for the SCM. The nominee appointment would be gazetted and registered, identifying the business as a micro undertaking. Figure 3 shows the overall declining use of the SCM as a percentage of CVA use by micro and small companies only.

Source: See Sue Morgan *Rescuing Companies or Creditors: The role of the CVA in the recuse culture*, and data tables 6.1.1, 6.1.2 and 9.3.1.

4. The potential outcome of the recommendations

The key recommendation set out above attempts to tackle the current low use of the CVA by increasing the volume of arrangements proposed for micro businesses, alongside improving creditor trust and the percentage of CVAs being approved and fully implemented. The recommendation also included improving IP training and experience in the use of the CVA to increase the number of initial recommendations, while also simplifying the regime specifically for micro undertakings. The use of the CVA by micro business should be proportionately the biggest user based on the national business statistics but currently is not. Increasing creditor participation, and ensuring that HMRC approve a higher percentage of proposals, would allow more businesses the opportunity to be rescued.[48] The additional cost recommendations included streamlining both reporting and voting to encourage more creditors to participate. Effectively improving the creditor experience and increasing trust in the CVA.

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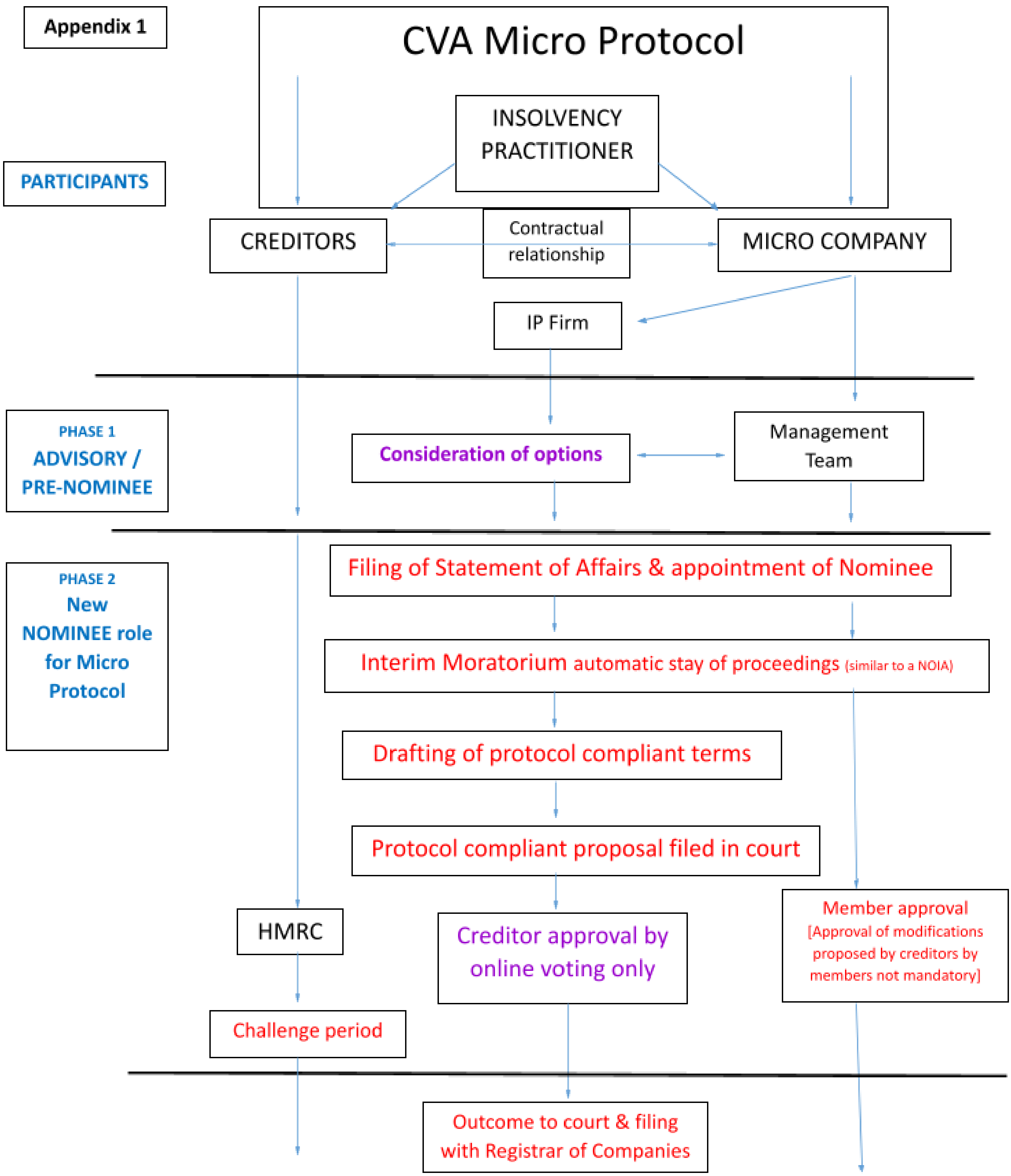
[46] The notice of intention to appoint provides a precedent for this proposed solution.

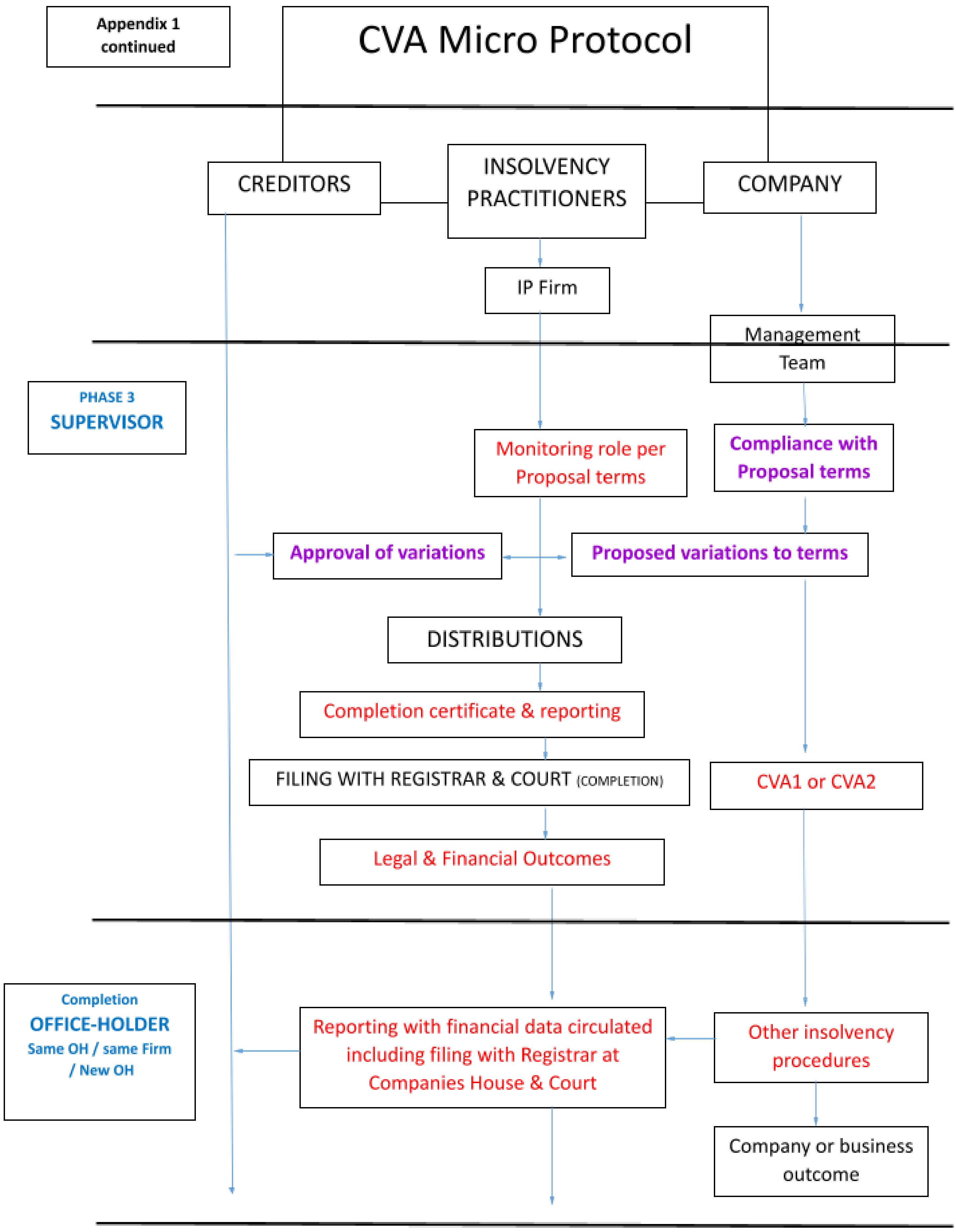
[47] The proposal would be a standard format in relation to the terms and conditions and confirm that the company was a micro undertaking.

[48] See n 1, Chapter 5 *Creditor participation in the Company Voluntary Arrangement* re HMRC rejection policy. As a result the market has been artificially dampened with many IPs considering that the effort required to get a CVA approved is too onerous and therefore do not even attempt to submit a proposal.

5. Conclusion

The separate presentation referred to provides a brief summary of the CVA research data and findings in order to situate and justify the main recommendation being presented - the CVA Micro Protocol. The presentation also explained how the further analysis using actor-network theory and path dependence theory on each of the CVA participants revealed their role as described in the options process. As a result the key invisible thread identified was the lack of financial expertise which was particularly important for micro businesses while also taking into account the lock-in effect of bias on actions and behaviours of the company, IPs and the creditors.


Appendix 1
CVA Micro Protocol
PARTICIPANTS
INSOLVENCY PRACTITIONER
CREDITORS
Contractual relationship
MICRO COMPANY
IP Firm
PHASE 1
ADVISORY / PRE-NOMINEE
Consideration of options
Management Team
PHASE 2
New NOMINEE role for Micro Protocol
Filing of Statement of Affairs & appointment of Nominee
Interim Moratorium automatic stay of proceedings (similar to a NOIA)
Drafting of protocol compliant terms
Protocol compliant proposal filed in court
HMRC
Creditor approval by online voting only
Member approval [Approval of modifications proposed by creditors by members not mandatory]
Challenge period
Outcome to court & filing with Registrar of Companies


Appendix 1 continued
CVA Micro Protocol
CREDITORS
INSOLVENCY PRACTITIONERS
COMPANY
IP Firm
Management Team
PHASE 3
SUPERVISOR
Monitoring role per Proposal terms
Compliance with Proposal terms
Approval of variations
Proposed variations to terms
DISTRIBUTIONS
Completion certificate & reporting
FILING WITH REGISTRAR & COURT (COMPLETION)
CVA1 or CVA2
Legal & Financial Outcomes
Completion
OFFICE-HOLDER
Same OH / same Firm / New OH
Reporting with financial data circulated including filing with Registrar at Companies House & Court
Other insolvency procedures
Company or business outcome