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Company Glossary of Terms

Administration
In relation to a company, the court, the holder of a floating charge, the company itself, or the directors may appoint an administrator. The purpose of the appointment is to protect the company from action by its creditors while the best solution to the company's financial problems can be found. Whoever appoints him, the administrator must seek to rescue the company or achieve a better result for creditors than if the company were wound up.

Administrator
A licensed insolvency practitioner appointed to manage the business and property of a company which is in administration. The administrator will prepare proposals for the creditors setting out how the purpose of the administration will be achieved.

Administrative Receiver
A licensed insolvency practitioner appointed by a secured creditor, typically a bank, holding a floating charge over the company's assets. The insolvency practitioner will seek to realise the assets in order to pay the secured creditor.

The administrative receiver also has a duty to pay preferential creditors from floating charge asset realisations. However, he has no authority to distribute funds to unsecured creditors, which is the responsibility of a liquidator.

Administrative Receivership
Is a procedure whereby an administrative receiver is appointed by the holder of a floating charge over the assets of a company. The administrative receiver is appointed in order for the floating charge-holder to recover money owed to it.

Annual Report
Insolvency practitioners are obliged to produce regular reports detailing their actions, including an account of what money they have received from insolvent companies and individuals and what has been paid out to creditors or as expenses to pay for the insolvency procedure (you might see this referred to as a receipts and payments account). In most forms of insolvency procedure, an annual report has to be provided within two months of the anniversary of the appointment of the insolvency practitioner or Official Receiver. In some insolvency procedures (including administrations in England and Wales), a report is required every six months.

Assets
Anything that belongs to an insolvent company or individual that may be used to repay their debts.

Charge
Is a form of security over assets, usually property, similar to a mortgage. A charge may be fixed or floating and it may be in the form of a mortgage or a debenture or other charging document. It protects a creditor in the event of non-payment of a debt. (See 'Fixed Charge' and 'Floating Charge', below.)

Charge-holder
Can be an individual or company who holds a charge over assets.

Collateral
This is something that someone taking a loan agrees to give up should they fail to repay that loan e.g. their home or a business' equipment.

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Company Voluntary Arrangement (CVA)
A procedure whereby the creditors accept proposals put forward by a company, to deal with their debts. This may involve continued trading, debt for equity swaps, partial sale of the business or the creditors accepting payment of an amount less than the full debt. A CVA is controlled by a licensed insolvency practitioner acting as a supervisor.

Compulsory liquidation / winding up
The winding up of a company after a petition to the court, usually by a creditor. The court orders that a company be wound up or 'placed into liquidation'. The company's assets are sold and the money paid to the creditors. The court order may be made upon a petition to the court by one of various parties, such as a creditor, the directors, a contributory (see below) or by the company itself.

Creditor
Someone owed money by an individual or business.

Creditors' Committee
A committee of at least three creditors appointed to represent all creditors and to assist the insolvency practitioner in the discharge of his duties in a formal insolvency procedure.

Creditors' meetings
These are formal or informal meetings of all creditors that are called by an insolvency practitioner handling an insolvency. A meeting is usually called at the outset of an insolvency proceeding and periodically thereafter. The purpose of the meeting depends on the type of insolvency, but it may be to impart information on the progress of the insolvency, to approve certain proposed actions by the insolvency practitioner or to approve fees and expenses. At the first such meeting there is usually an opportunity for creditors to ask the debtor (either an individual or an insolvent company's directors) questions.

Creditors' voluntary liquidation
A procedure whereby an insolvent company is placed into liquidation by the members and the liquidator is chosen by the creditors.

Debenture
A document issued as evidence of a debt or the granting of security for a loan. The term is often used in relation to loans from banks secured by charges over a company's assets.

Debtor
Someone who owes money to an individual or a company. Also used as an alternative to 'bankrupt' to describe someone in bankruptcy.

Debts
Amounts owed by the individual or company.

De Facto director
A person holding himself out to be a director, but who has not been registered as a director at Companies House. He or she will purport to have the authority to bind the company and therefore is subject to the same liabilities as a formally appointed director.

Director
A person appointed by the shareholders who directs the affairs of a company and can legally bind that company.

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Director's disqualification order
An order of the court, disqualifying a person from being involved in the management of a company for between two and fifteen years. An order will be made when the court concludes that a director is unfit to manage the affairs of a limited liability company. A director may give an undertaking not to be involved in the management of a company for a specified period rather than go to court.

Dividend
An amount distributed to creditors in a formal insolvency.

Execution
A process whereby assets are seized because of the non-payment of a particular debt. These assets are then sold and the proceeds used to repay that debt.

Fixed Charge Lender/'Secured creditor'/mortgagee
These are creditors who have been granted rights (known as a 'charge', or 'security') to a specific property or asset belonging to the company or individual to whom money has been lent. If the loan is not paid back, the lender can take control of the asset the loan has been 'secured' against and sell it. Banks are a typical fixed charge creditor – mortgages are an example of a loan secured by a fixed charge or standard security.

Floating Charge Lender
A charge held over general assets of a company. The assets may change (such as stock) and the company can use the assets without the consent of the secured creditor until the charge "crystallises" (becomes fixed). Crystallisation occurs on the appointment of an administrative receiver, after the presentation of a winding-up petition or as otherwise stated in the document creating the charge. The chargeholder may appoint an administrative receiver or an administrator.

Fraudulent trading
Fraudulent trading occurs where any business of a company has been carried on with the intent to defraud creditors. A person found guilty of causing a company to trade fraudulently may be made personally liable to make a contribution to the company's assets.

Guarantee
A written agreement to pay a debt owed by another party; it must be in writing for it to be enforceable.

Gazette (editions are published in London, Edinburgh, and Belfast)
An official government publication, which contains legal notices about new insolvencies and the details of appointed Office Holders. The Gazette also includes notices of any creditors' meetings. You can see the Gazette website here.

Insolvency
This is where an individual or company cannot pay the debts they owe when they are due and/or the individual or company owes more than they own. People or companies in this situation can end up in a formal insolvency procedure ('an insolvency'). Formal insolvency procedures are legal procedures designed to get debts repaid and to return individuals and, where possible, businesses to financial health

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Insolvency practitioners (IPs) and Official Receivers (ORs) and the Accountant in Bankruptcy (AiB)

IPs are the licensed independent specialists who are appointed to supervise formal insolvency procedures. IPs have to act in the interest of creditors – they can either help the debtor turn their finances around, or, when this isn't possible, they will gather in all the debtor's assets, turn them into cash and distribute the proceeds back to creditors (in accordance with an 'order of priority' determined by the government).

IPs are specially qualified and regulated accountants and lawyers; the ORs (excluding Scotland) and AiB (Scotland only) are civil servants and employees of the government. Unlike IPs, ORs and the AiB are not licensed. Depending on the type of insolvency you're involved in, you might come across all three.

It is important to remember that where an individual or company has become insolvent, it is very likely that they will not have enough money to pay back all that is owed. IPs, ORs and the AiB will do their best to ensure that as much as possible is repaid.

Once formally appointed to look after an insolvent company or individual, the IPs, ORs and AiB may be referred to as 'Office Holders'.

The term 'AiB' or 'Accountant in Bankruptcy' is used by the offices of the AiB in different ways to refer to different functions that it performs, including for example as an Agency of the Scottish Government. For the purpose of this website, we simply refer to the "AiB" in respect of all its various roles and functions.

Insolvency Service

The Insolvency Service is the government agency for insolvency in England and Wales. There is a separate Insolvency Service for Northern Ireland, and the AiB covers personal insolvencies in Scotland.

The Insolvency Service is an executive agency of the Department of Business Enterprise and Regulatory Reform responsible for administering insolvency laws. Its principal functions are:

- to investigate the affairs of bankrupts and companies in compulsory liquidation
- to handle the disqualification of unfit directors
- to act as trustee or liquidator in cases where an insolvency practitioner is not acting
- to regulate insolvency practitioners, either directly or through the recognised professional bodies
- to provide policy advice to government ministers.

Insolvency Services Account (ISA)

The account at the Bank of England into which money raised from the sale of assets in bankruptcies and compulsory liquidations has to be paid. Money is then paid to creditors out of these accounts. The Insolvency Service charges fees on money paid into these accounts.

Insolvent liquidation

A liquidation where assets are insufficient for a company to pay in full its debts and the expenses of the winding up

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Insolvency Practitioner (IP)
A person, licensed by a recognised professional body or the Secretary of State, who may act as an office holder in insolvency proceedings.

Insolvency procedures
This term refers to any of the procedures under the Insolvency Act 1986 such as liquidation, bankruptcy, administration and voluntary arrangements. It is also often used to refer to other procedures not directly covered by the Insolvency Act 1986, such as fixed charge receiverships and informal arrangements.

Interim liquidator
In a Scottish compulsory liquidation the insolvency practitioner appointed by the court when the 'winding up' order as made is called the interim liquidator. They act as liquidator until the initial meeting of creditors (within 28 days) appropriate their appointment, or appoints an alternative.

Investigation of the failure of the business
In administrations and creditors voluntary liquidations an insolvency practitioner has an obligation to carry out an investigation into the conduct of the director(s) of the failed business and will welcome any input from creditors. If you have any additional information that may be helpful, please get in touch with the insolvency practitioner as a matter of urgency.

The insolvency practitioner has to submit a confidential report on his findings to the Insolvency Service, who may decide to try and have the director(s) disqualified. If you think a director should have been disqualified but has not, you should write to the Insolvency Service and your local Member of Parliament (copying in your insolvency practitioner).

In compulsory liquidations and bankruptcy the duty to investigate and report falls to the Official Receiver. In Scotland, the insolvency practitioner carries out that duty.
Judgment
An order of the court for payment of a debt.

Liabilities
See 'debts'.

Licensed Insolvency Practitioner
An individual who is qualified to act as an office holder in a formal insolvency. He or she must be licensed by a recognised professional body or the Secretary of State to carry out insolvency work.

Lien
Lien is the right to retain possession of assets or documents until the settlement of a debt.

Liquidation (winding up)
Applies to companies or partnerships. It involves the realisation and distribution of assets and usually the closing down of the business. There are three main types of liquidation - compulsory, creditors' voluntary and members' voluntary. (See these headings for definitions.)

Liquidator
An insolvency practitioner appointed to administer the liquidation and sell and distribute all of the assets of a company or partnership prior to it being dissolved. In a compulsory liquidation the Official Receiver may act as the liquidator.

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Member (of a company)
A person who has agreed to be, and is registered as, a member, such as a shareholder of a limited company.

Members' voluntary liquidation
A procedure for the liquidation of a solvent company. The liquidator is appointed by the shareholders.

Moratorium - A period of time during which a certain activity is not allowed or required. Usually a moratorium is put in place to protect a person, business or company

Nominee
An insolvency practitioner who reviews a proposal for a Voluntary Arrangement and makes a report to the Court including whether, in his view, a meeting of creditors should be called to consider the proposals.

Officer (of a company)
A director or company secretary of a company.

Office Holder
A person appointed under the Insolvency Act 1986 to act as a trustee in bankruptcy, liquidator, administrator, administrative receiver or supervisor of a voluntary arrangement.

Official Receiver (OR)
A civil servant employed by The Insolvency Service, who deals with bankruptcies and compulsory liquidations. The Official Receiver's functions include the investigation of the affairs of bankrupts and companies in compulsory liquidation. He also acts as liquidator and trustee of last resort in bankruptcies and compulsory windings up.

Official Receiver’s Rota
Insolvency Practitioners can be appointed to cases initially dealt with by the Official Receiver (bankruptcies and compulsory liquidations) through a ‘rota’ of local insolvency practitioner firms. The aim of the rota is to ensure transparency and fairness of appointments.

Order of Priority
The order in which creditors are repaid their debts as a result of an insolvency procedure is determined by something called the ‘Order of Priority’. This order, or hierarchy, has been set out by the government. At the top of the order are ‘secured’ lenders like banks; towards the bottom are ‘unsecured’ lenders like trade suppliers. Banks have priority so that they remain confident about lending large amounts of money to businesses.

Partnership voluntary arrangement (PVA)
In a PVA creditors of a partnership accept proposals, put forward by the partnership, to deal with its debts. This may involve continued trading, contribution of cash or assets from a third party, income contributions, sale of some of the partnership's assets or accepting an amount less than repayment of debts in full. The procedure is controlled by a licensed insolvency practitioner acting as a supervisor.

Petition
A formal application made to a court. In insolvency proceedings, petitions are made to obtain bankruptcy or compulsory winding up orders

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Preferential creditors
Certain types of creditor debts are given a legal priority in terms of repayment from an insolvency. These include the employees of an insolvent business, although only for certain debts: unpaid wages; holiday pay; and pension contributions. Only up to a set amount (determined by the government) will be paid out.

You might hear these creditors referred to as ‘prefs’.

Prescribed part
That part of a company's assets that, by legislation, is ring fenced and made available to satisfy the claims of unsecured creditors instead of the holders of floating charges. It is 50% of the first £10,000 of the specified funds and 20% of the balance, up to a maximum of £600,000.

Proof of debt
A form completed by a creditor in a formal insolvency procedure to state how much is claimed. The form is supplied by the office holder.

Protected Trust Deed
A Protected Trust Deed is a personal insolvency procedure available to Scottish residents only. It is voluntary but formal arrangement between a debtor and their creditors. The debtor makes ‘affordable’ monthly payments towards their debt for typically four years. A debtor grants a ‘Trust Deed’ in favour of the Trustee which transfers their assets to the Trustee for the benefit of creditors. It is overseen by the Accountant in Bankruptcy.

Provisional liquidator
Official Receiver or an Insolvency Practitioner appointed to preserve a company's assets pending the hearing of a winding up petition.

Proxy
A person or company can appoint someone to go to a creditors’ meeting and vote in their place – a proxy. This can be the chairman of the meeting. A ‘proxy form’ will need to be completed if a creditor wishes this to happen – if you need a proxy form and haven’t already been given one, you should speak to the Office Holder handling the insolvency in which you’re a creditor.

Public examination
When a company is being wound up or in bankruptcy proceedings, the Official Receiver may at any time apply to the court to question the company's director(s) or any other person who has taken part in the promotion, formation or management of the company or the bankrupt

Realise
Realising an asset means selling it or disposing of it to raise money, for example to sell an insolvent's assets and obtain the proceed

Receiver
The name commonly used for an administrative receiver. The term can also mean a person appointed by the court or with the power to receive the rents and profits of property. Receivers who are not administrative receivers do not need to be insolvency practitioners.

Receivership
A company in administrative receivership is often said to be "in receivership".

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Recognised professional body
A body authorised by the Secretary of State to licence its members to act as insolvency practitioners. These bodies include the Institute of Chartered Accountants of England and Wales, the Insolvency Practitioners' Association and the Law Society.

Redundancy
A reason for dismissal, redundancy involves the closure (either temporary or permanent) of the business as a whole or closure of a particular department this could suggest that the business has no further use for the department you are working in, are downsizing or could be facing difficulties.

Release
The process by which the Official Receiver or an Insolvency Practitioner is discharged from the liabilities of office as trustee, liquidator or administrator.

Rescission
A procedure that cancels a winding-up order.

Retention of Title (RoT)
RoT is where you, as a creditor, have an agreement with a customer that says the goods you have supplied remain your property until the customer has paid for them. If you have an RoT claim to make, you need to let the insolvency practitioner or Official Receiver know as soon as possible and provide them with a copy of your terms and conditions as well as the details of your claim.

Secretary of State
The Secretary of State for the Department of Business Enterprise and Regulatory Reform. The Secretary of State is responsible for administration of the insolvency laws and has the power to licence insolvency practitioners.

Secured creditor
A creditor who holds security, such as a mortgage, over a person's assets for money owed.

Security
A charge, mortgage or other right in respect of assets which secures payment of a debt.

Sequestration
The Scottish name for 'bankruptcy' (bankruptcy is often used but sequestration is the traditional name).

Shadow director
A person who, without being formally appointed, gives instructions on which the directors of a company are accustomed to act.

Solvent
Able to pay one's debts as they become due or having a surplus of assets over liabilities.

Statement of Affairs
A legal document, including a statement of truth completed by a bankrupt or a company's representative, listing assets and debts.

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Statement of Insolvency Practice (SIP)
Statements of Insolvency Practice are usually referred to as SIPs. SIPs set principles and key compliance standards with which Insolvency Practitioners are required to comply

Statutory Demand
Usually this action is taken after a creditor has obtained a Judgment. It is a formal demand for payment of an undisputed debt (over £5000 from 1st October 2015) - the debt must be paid within 21 days of the demand being issued. Failure to pay a statutory demand can lead to a winding up petition or bankruptcy being issued. In any event, the creditor has to pay to issue this document/action and therefore he/she/it is now becoming much more serious.

Supervisor
A licensed insolvency practitioner appointed by creditors to supervise the implementation of a voluntary arrangement..

Time records
The insolvency practitioner records time spent on a case so creditors can see what work has been done. The type of activity logged can include day-to-administration, responding to correspondence from debtors or creditors, attending creditors' meetings, realising the assets of an insolvent business or individual, or investigating the conduct of an insolvent business' directors. Details of the insolvency practitioner's time records might be included in their Annual Report or progress reports to creditors.

'Unsecured' creditor
A creditor who does not hold security (such as a mortgage) for money owed. Unsecured creditors rank behind secured and preferential creditors in the order of distribution of assets. This means that if the secured and preferential creditors are not paid in full, there will be no money for the unsecured creditors. However, in certain circumstances some of a company's assets may be made available to unsecured creditors at the expense of a floating charge holder (see prescribed part).

Voluntary liquidation
A method of liquidation not involving the courts or the Official Receiver. There are two types of voluntary liquidation - members' voluntary liquidation for solvent companies and creditors' voluntary liquidation for insolvent companies. A licensed insolvency practitioner must act as liquidator.

Winding up order (liquidation)
Order of a court, usually based on a creditor's petition, for the compulsory winding up of a company or partnership. The Official Receiver or a licensed insolvency practitioner will be appointed as liquidator in order to sell and distribute the assets of the company prior to it being dissolved. The Official Receiver may also act as liquidator.

Wrongful trading
Wrongful trading applies in relation to a person if:

- a company has gone into insolvent liquidation, and
- at some time before the winding up of the company that person knew or ought to have concluded that there was no reasonable prospect that the company would avoid going into insolvent liquidation, and
- the person was a director of the company at that time.

The director involved may be made personally liable to make a contribution to the company's assets.