

Private & Confidential

22 May 2013

Our Ref 2400(26)

Please ask for:
Deborah Gallacher - 0141 249 8493
Alison Kennedy - 0141 249 5204

Dear Sirs

RFC 2012 P.L.C. formerly The Rangers Football Club P.L.C. (In Liquidation) (“the Company”)
Company Number: SC004276

1. Introduction

We refer to our appointment as Joint Liquidators of the Company on 31 October 2012.

This report is being sent to all known creditors and addresses the following aspects of the liquidation process:

- In accordance with Rule 4.10(1) of the Insolvency (Scotland) Rules 1986, an update to creditors regarding progress in the liquidation to date; and
- Notification of the Liquidators’ remuneration and outlays as approved by the Liquidation Committee (“the Committee”).

This is a complex liquidation containing a number of key areas of investigation, each of which may have a significant impact on the ultimate outcome for creditors. However, due to the highly sensitive nature of certain aspects of these investigations, we consider that it is not appropriate to provide full details in respect of our investigations to date in this circular. In particular, we are not in a position to comment in detail upon the following matters:

- The litigation commenced by the former Joint Administrators against Collyer Bristow (“the CB litigation”, which has been mentioned briefly in the Administrators’ previous reports to creditors);
- The events leading up to the administration and the conduct of the former Joint Administrators;
- The conduct of the Company’s directors prior to the administration; and
- The appeal by HMRC in respect of the Employee Benefit Trust (“EBT”) decision.

As creditors may recall, the Committee was formed at the first statutory meeting of creditors held on 4 December 2012. The five members of the Committee represent the interests of the general body of creditors, and each has signed a confidentiality undertaking given the sensitive nature of the information to which they have access. Since its formation, two formal Committee meetings have been held in which the Joint Liquidators’ investigations and the liquidation

strategy have been discussed in detail. The Joint Liquidators will continue to liaise closely with the Committee as their investigations progress.

2. Receipts and Payments

We attach a summary of our receipts and payments for the six month period to 30 April 2013. We are unable to provide statement of affairs comparatives as, despite repeated requests, no statement of affairs has been submitted by the directors. We have included as comparatives the estimated assets and liabilities as provided by the former Joint Administrators.

The receipts and payments are in the main self explanatory, but we would like to specifically comment on the following items:

Administration Surplus

A gross surplus of £2.288m has been received from the former Joint Administrators by way of a combination of cash and VAT refunds. The former Joint Administrators have yet to prepare their final accounts, however, we do not believe that there are any further funds to be passed to the liquidation estate.

Book Debts

Following our appointment, we were made aware that the purchaser of the business and assets of the Company (“Newco”) had asserted claims over a number of the outstanding book debts. Other than the sums due in respect of the transfer of Nikita Jelavic (two payments of £975k due in May 2013 and 2014), Newco advised that it considered that all further sums due to the Company had been acquired under the terms of the sale and purchase agreement entered into by the former Joint Administrators. These debts included crystallised sums of c£504k, with potential further amounts arising in respect of sell on clauses in various contracts (“the contingent debts”).

After taking legal advice in respect of the Company’s entitlement to the debts, and to avoid the costs and risks involved in determining the matter through litigation, we ultimately reached agreements with Newco whereby all sums relating to debts known to be due would be retained for the benefit of the liquidation estate (£504k) and any sums arising in respect of the contingent debts will be split equally between the Company and Newco.

In addition to the book debt dispute, there was also an issue in respect of the Section 99 Arbitration proceedings (against a number of the Company’s former players) that the former Administrators had opened in the Company’s name, for the benefit of Newco. Furthermore, Newco had requested that the Company, acting by its Liquidators, be represented at the SPL tribunal that was due to be held at the end of January. As a result of these proceedings, the Company had a potential exposure to adverse costs.

It was also therefore agreed with Newco that c£64k of the book debt receipts would be placed onto an escrow account to cash back an indemnity provided by Newco in respect of the Company’s potential exposure to costs arising out of the Section 99 Arbitration and the SPL tribunal. In addition, The Rangers Fans Fighting Fund also deposited the sum of £135k into the escrow account to provide further cash cover. It was also agreed that 5% of any proceeds recovered by Newco in respect of the Section 99 Arbitration would be paid into the liquidation estate.

To date, book debts with a gross value of c£400k have been recovered and £64k will be transferred to the escrow account as part of the agreement. A further £35k has crystallised in respect of the contingent debts, and the liquidation estate will therefore benefit from an additional sum of £17.5k. We anticipate that further recoveries in excess of £2m will be recovered from book debts by the end of May 2014.

Legal Fees

Legal fees of c£100K have been paid from the liquidation estate to date. Of this sum, £37k relates to a payment to Clyde & Co LLP (lawyers to Collyer Bristow) in relation to the vacation of a security for costs hearing in respect of the CB litigation. c£63k has been paid to Brodies LLP, in respect of post appointment legal costs incurred by the Joint Liquidators, following approval by the Committee.

Pre Liquidation Legal Costs

These costs of £130k relate to the agreed costs incurred by Ticketus in respect of the Court directions sought by the former Administrators in respect of Ticketus' rights as regards the season ticket revenue and the underlying rights to the seats. Lord Hodge had ordered that the legal costs of Ticketus should rank as a cost of the administration. This had not been paid as at the date of our appointment and the costs have therefore subsequently been paid out of the funds passed to the liquidation estate in accordance with the Court interlocutor.

Deed of Indemnity

This payment of £170k relates to a bond that was required as security for an After The Event ("ATE") insurance policy obtained to provide cover in respect of the Company's potential exposure to adverse costs in the CB litigation. The Joint Liquidators have spent a significant amount of time in negotiating arrangements that protect the liquidation estate in the event that the CB litigation is unsuccessful. We are pleased to confirm that these arrangements, which have been sanctioned by the Committee, are now in place.

3. Section 99 Arbitration/SPL Tribunal

At the Section 99 Arbitration hearing held in January 2013, it agreed that the Company could exit from the process and that Newco would seek to be represented going forward.

Following representations by the parties in respect of costs, it is our current understanding that the Company may be responsible for costs for the period 9 June to 2 August 2012, with Newco being responsible for all other costs. This should be a relatively minimal amount but in any event will be covered by the cash held in escrow and the indemnity provided by Newco, therefore there should be no actual cost to the liquidation estate.

In respect of the SPL tribunal, creditors will be aware that the Company was found to have contravened SPL rules in relation to the issue of dual contracts and was fined £250k although not stripped of any titles. To date, no claim has been intimated to the Joint Liquidators in respect of this fine.

The issue of expenses in respect of the SPL tribunal is ongoing. However, we consider it unlikely that the liquidation estate will be held liable for any significant level of expenses and, as noted above, adequate protections are in place to cover this eventuality.

4. EBT

As creditors will be aware, HMRC has appealed the First Tier Tax Tribunal decision in respect of the EBT scheme previously operated by the Company, commonly known as the big tax case. We are currently reserving the Company's position in respect of the appeal, whilst we review the documentation and evidence previously submitted and determine the most appropriate strategy with our legal advisors. Given the appeal's potential impact on the level of creditors' claims in the liquidation, we will liaise closely with the Committee in respect of the Company's approach to the appeal.

5. Agents

The Joint Liquidators have employed Brodies LLP to provide assistance in respect of Scottish legal matters, and Stephenson Harwood LLP to provide assistance in respect of English legal matters.

With the exception of work in respect of the CB litigation, both parties are being remunerated on a time costs basis subject to the sanction of the Committee. Stephenson Harwood LLP is acting on a conditional fee arrangement (i.e. no win, no fee) in respect of the CB litigation.

6. Prescribed Part

Under the provisions of Section 176A of the Insolvency Act 1986, the Liquidators must state the amount of funds available to unsecured creditors in respect of the prescribed part. This provision only applies where a company has granted a floating charge to a creditor after 15 September 2003. As the Company has not granted a floating charge which post dates 15 September 2003, the prescribed part will not apply in this particular case.

7. Dividend Prospects

The prospects of a dividend are highly contingent upon the outcome of certain key areas of investigation, including the CB litigation. At this stage, it is not appropriate to estimate the level of dividend that may ultimately be available to unsecured creditors.

8. Liquidators' Remuneration and Outlays

Liquidators' Remuneration

To date, the Committee has approved the Joint Liquidators' remuneration as follows:

- For the period 31 October 2012 to 28 December 2012, remuneration of £226,253.35 and disbursements of £7,764.73 (all net of VAT); and
- For the period 29 December 2012 to 31 March 2013, remuneration of £398,800.65 and outlays of £7,311.02 (all net of VAT).

The basis of remuneration in this case is a time cost basis, and we enclose a SIP9 summary of our time costs submitted for these periods, for your information.

Creditors' rights of appeal against the above determination are set out in Rule 4.35 of the Insolvency (Scotland) Rules 1986 and Section 53 of the Bankruptcy (Scotland) Act 1985 (as amended), as applied to Liquidations by Rule 4.68. This provides that any creditor or creditors representing in value at least 25 per cent of the creditors' claims may apply to the court for an order that the liquidators' remuneration is reduced.

Should you intend lodging an appeal we would be obliged for notification. On expiry of 14 days from this circular, should there be no appeal we will proceed to draw the approved remuneration and outlays.

Liquidators Outlays

The Committee has also approved the following outlays (all net of VAT):

- The costs of Brodies LLP in respect of the period 31 October 2012 to 7 January 2013 of £62,404, and in respect of the period 8 January 2013 to 31 March 2013 of £86,706.50; and

- The costs of Stephenson Harwood LLP in respect of the period 31 October 2012 to 7 January 2013 of £72,396, and in respect of the period 8 January 2013 to 31 March 2013 of £117,209.14.

9. Future Reports

It is our intention to make an application to the Court of Session for future reports to creditors to be made available through a website. All creditors will be notified of the future process to be followed should the order be granted.

10. Other Matters

Debenture Holders

We have received enquiries from a number of debenture holders in respect of the status of their claims and their rights as against Newco. Newco has confirmed that it will not be repaying the initial investment in any debenture and, accordingly, sums owed in respect of the investment in the debentures will rank as unsecured claims in the liquidation. We understand that Newco will be writing to all debenture holders regarding their ticketing rights going forward.

If debenture creditors have not already done so, they should intimate details of their claims to the Joint Liquidators at BDO LLP, 4 Atlantic Quay, 70 York Street, Glasgow G2 8JX.

SPL Prize Money 2011/12 Season

A number of creditors and shareholders have asked us to clarify how the SPL prize money due to the Company for finishing second in the 2011/12 season was dealt with. We can advise that the right to this prize money was sold to Newco as part of the business and assets of the Company. Subsequently, to gain entry into the Football League, both Newco and the Company agreed to waive any rights to this money, which was retained by the SPL.

Based on this information, the Company has no further interest in the prize money.

Conclusions

We have attended to all statutory requirements throughout the course of the liquidation to date.

Due to the significant issues to be resolved in the liquidation, the Joint Liquidators do not expect to be in a position to bring this case to a conclusion for some considerable time. Further reports will be circulated to creditors within six weeks of each six month anniversary of the date of liquidation.

Should you have any queries in respect of this report, please contact our staff on the number above.

Yours faithfully

For and on behalf of RFC 2012 P.L.C. formerly The Rangers Football Club P.L.C.



James B Stephen
Joint Liquidator



Malcolm Cohen
Joint Liquidator

James Bernard Stephen and Malcolm Cohen are authorised to act as insolvency practitioners by the Institute of Chartered Accountants of England & Wales. Office holder numbers 9273 and 6825.

**RFC 2012 P.L.C. formerly The Rangers Football Club P.L.C.
(In Liquidation)
Joint Liquidators' Abstract of Receipts & Payments
To 30/04/2013**

S of A £		£	£
	ASSET REALISATIONS		
1,871,000.00	Administration Surplus	2,288,623.78	
Uncertain	Book Debts	396,885.89	
Uncertain	Shares & Investments	NIL	
Uncertain	Litigation	NIL	
Uncertain	Refunds	NIL	
	Bank Interest Gross	3,929.48	
		<hr/>	2,689,439.15
	COST OF REALISATIONS		
	Specific Bond	555.00	
	PR Agency	8,330.57	
	Valuers Fees	1,500.00	
	Legal Fees	99,904.00	
	Legal Disbursements	63.51	
	Corporation Tax	1,883.00	
	Pre Liquidation Legal costs-Ticketus	130,000.00	
	Deed of Indemnity	170,000.00	
	Stationery & Postage	3,629.68	
	Statutory Meeting Costs	2,386.66	
	Statutory Advertising	439.68	
	Bank Charges	44.00	
		<hr/>	(418,736.10)
	PREFERENTIAL CREDITORS		
(1,000.00)	RPO	NIL	
(7,000.00)	Employees Pref Claims	NIL	
		<hr/>	NIL
	UNSECURED CREDITORS		
(7,033,666.84)	Trade & Expense Creditors	NIL	
(7,736,000.00)	Debenture Holders	NIL	
Uncertain	Unsecured E.P.A.	NIL	
(20,030,000.00)	Directors	NIL	
(27,211,671.63)	Ticketus	NIL	
(3,344,432.04)	Football Creditors	NIL	
(94,426,217.22)	HMRC	NIL	
		<hr/>	NIL
	DISTRIBUTIONS		
(10,879,400.00)	Ordinary Shareholders	NIL	
		<hr/>	NIL
<hr/>			<hr/>
(168,798,387.73)			2,270,703.05
	REPRESENTED BY		
	Vat Input		16,227.25
	The Royal Bank of Scotland		2,194,693.89
	The Royal Bank of Scotland		47,833.41
	The Royal Bank of Scotland		11,948.50
			<hr/>
			2,270,703.05

The Company is VAT registered. Receipts and payments are shown net of VAT.

RFC 2012 PLC (FORMERLY THE RANGERS FOOTBALL CLUB PLC) - IN LIQUIDATION
 Summary of Time Charged and Rates Applicable for the Period 31 October 2012 to 28 December 2012

DESCRIPTION	PARTNER		MANAGER - DIRECTOR		ASSISTANT MANAGER		SENIOR EXECUTIVE		EXECUTIVE		OTHER STAFF		GRAND TOTAL		AVERAGE RATE £
	Hours	Total £	Hours	Total £	Hours	Total £	Hours	Total £	Hours	Total £	Hours	Total £	Hours	Total £	
A. Steps On Appointment	90.70	33,388.60	15.00	6,216.00	-	-	30.00	6,798.00	-	-	-	-	135.70	46,402.60	341.95
B. Planning & Strategy	2.00	1,316.00	2.00	910.00	-	-	4.75	1,163.75	-	-	-	-	8.75	3,389.75	387.40
C. Dealing with Solicitors	20.00	13,160.00	49.75	22,027.25	-	-	47.50	11,637.50	-	-	-	-	117.25	46,824.75	399.36
D. Forensic IT and Accounting	-	-	87.25	35,576.50	14.75	5,015.00	4.00	1,088.00	-	-	-	-	106.00	41,679.50	393.20
E. General Administration, Investigations & Other Matters	9.00	5,922.00	13.50	5,939.50	-	-	19.75	4,838.75	21.25	3,276.50	36.00	2,208.00	99.50	22,184.75	222.96
F. Assets Realisation/Dealing	8.00	2,760.00	6.00	2,730.00	-	-	35.25	8,636.25	-	-	-	-	49.25	14,126.25	286.83
G. Employee Matters	6.00	2,383.00	-	-	-	-	1.00	245.00	-	-	-	-	7.00	2,628.00	375.43
H. Creditor Claims	5.00	1,725.00	11.50	3,507.00	-	-	14.50	3,552.50	18.00	2,610.00	10.50	609.00	59.50	12,003.50	201.74
I. Reporting	20.00	10,969.00	44.00	16,061.50	-	-	40.75	9,983.75	-	-	-	-	104.75	37,014.25	353.36
J. Distribution & Closure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	160.70	71,623.60	229.00	92,967.75	14.75	5,015.00	197.50	47,943.50	39.25	5,886.50	46.50	2,817.00	687.70	226,253.35	329.00
													Disbursements	7,764.73	
													TOTAL	234,018.08	

Summary of Time Charged and Rates Applicable for the Period 29 December 2012 to 31 March 2013

DESCRIPTION	PARTNER		MANAGER - DIRECTOR		ASSISTANT MANAGER		SENIOR EXECUTIVE		EXECUTIVE		OTHER STAFF		GRAND TOTAL		AVERAGE RATE £
	Hours	Total £	Hours	Total £	Hours	Total £	Hours	Total £	Hours	Total £	Hours	Total £	Hours	Total £	
A. Steps On Appointment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Planning & Strategy	3.00	1,974.00	13.50	4,868.50	-	-	10.75	2,633.75	-	-	-	-	27.25	9,476.25	347.75
C. Dealing with Solicitors	54.50	32,574.50	92.50	42,087.50	-	-	108.75	26,643.75	-	-	-	-	255.75	101,305.75	396.11
D. Forensic IT and Accounting	-	-	77.50	36,912.50	44.75	15,215.00	177.50	58,754.75	29.50	3,953.00	-	-	329.25	114,835.25	348.78
E. General Administration, Investigations & Other Matters	29.25	10,737.75	36.50	15,541.75	-	-	109.50	26,827.50	48.20	6,627.20	21.15	1,479.20	244.60	61,213.40	250.26
F. Assets Realisation/Dealing	73.50	27,235.50	86.50	26,944.00	-	-	61.25	15,006.25	-	-	-	-	221.25	69,185.75	312.70
G. Employee Matters	-	-	-	-	-	-	1.25	306.25	-	-	-	-	1.25	306.25	245.00
H. Creditor Claims	8.50	2,932.50	16.50	3,764.25	-	-	15.00	3,675.00	-	-	18.00	1,044.00	58.00	11,415.75	196.82
I. Reporting	28.50	12,336.50	29.00	11,469.50	-	-	27.25	6,676.25	4.00	580.00	-	-	88.75	31,062.25	350.00
J. Distribution & Closure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	197.25	87,790.75	352.00	141,588.00	44.75	15,215.00	511.25	140,523.50	81.70	11,160.20	39.15	2,523.20	1,226.10	398,800.65	325.26
													Disbursements	7,311.02	
													TOTAL	406,111.67	

BDO LLP REMUNERATION AND DISBURSEMENTS POLICY

In accordance with best practice I provide below details of policies of BDO LLP in respect of fees and expenses for work in relation to the above assignment.

The current charge out rates per hour of staff within my firm who may be involved in working on the assignment follows. This in no way implies that staff at all such grades will work on the case:

GRADE	London £	Scotland £
Partner	530 - 658	345
Director	366 - 455	296
Senior Manager	252 - 477	273
Manager	290 - 328	214
Assistant Manager (Forensics)	262 - 340	170
Senior Executive	197 - 272	145
Executive	151 - 197	128
Other Staff	90	58 - 159

The rates charged by BDO LLP are reviewed each year and are adjusted to take account of inflation and the firm's overheads.

Time spent on casework is recorded directly to the relevant case using a computerised time recording system and the nature of the work undertaken is recorded at that time. Units of time can be as small as 3 minutes. BDO LLP records work in respect of insolvency work under the following categories:

- Pre Appointment
- Steps upon Appointment
- Planning and Strategy
- General Administration
- Asset Realisation/Management
- Trading Related Matters
- Employee Matters
- Creditor Claims
- Reporting
- Distribution and Closure
- Other Issues

Under each of the above categories the work is recorded in greater detail in sub categories. Please note that the 11 categories provide greater detail than the 6 categories recommended by the Recognised Professional Bodies who are responsible for licensing and monitoring insolvency practitioners.

Where an officeholder's remuneration is approved on a time cost basis, the time invoiced to the case will be subject to VAT at the prevailing rate.

Where remuneration has been approved on a time costs basis, a periodic report will be provided to any committee appointed by the creditors, or in the absence of a committee, to the creditors. The report will provide a breakdown of the remuneration drawn and will enable the recipients to see the average rates of such costs.

Where expenses are incurred in respect of the insolvent estate they will be recharged. Such expenses can be divided into 2 categories.

Category 1 Disbursements

This heading covers expenses where BDO LLP has met a specific cost in respect of the insolvent estate where payment has been made to a third party. Such expenses may include items such as advertising, travel (by public transport), couriers, searches at company house, land registry searches, fees in respect of swearing legal documents, external printing costs etc. In each case the recharge will be reimbursement of a specific expense incurred.

Where applicable, disbursements will be subject to VAT at the prevailing rate.

Category 2 Disbursements

Additionally, some firms recharge expenses for example postage, stationery, photocopying charges, telephone and fax costs, which cannot economically be recorded in respect of each specific case. Such expenses, which are apportioned to cases, require the approval of the creditors before they can be drawn, and these are known as category 2 disbursements. The policy of BDO LLP, effective from 1 July 2003, is not to recharge any expense which is not a specific cost to the case, therefore there will be no category 2 disbursements charged.

A CREDITORS' GUIDE TO LIQUIDATORS' REMUNERATION - SCOTLAND**1 Introduction**

- 1.1 When a company goes into liquidation the costs of the proceedings are paid out of its assets in priority to creditors' claims. The creditors, who hope to recover some of their debts out of the assets, therefore have a direct interest in the level of costs, and in particular the remuneration of the insolvency practitioner appointed to act as liquidator. The insolvency legislation recognises this interest by providing mechanisms for creditors to fix the basis of the liquidator's remuneration. This guide is intended to help creditors be aware of their rights to approve and monitor remuneration and disbursements, and explains the basis on which remuneration and disbursements are fixed.

2 Liquidation Procedure

- 2.1 Liquidation (or "winding up") is the most common type of corporate insolvency procedure. Liquidation is the formal winding up of a company's affairs entailing the realisation of its assets and the distribution of the proceeds in a prescribed order of priority. Liquidation may be either voluntary, when it is instituted by resolution of the shareholders, or court, when it is instituted by order of the court.
- 2.2 Voluntary and court liquidation are equally common. An insolvent voluntary liquidation is called a creditors' voluntary liquidation (often abbreviated to "CVL"). In this type of liquidation an insolvency practitioner acts as liquidator throughout and the creditors can vote on the appointment of the liquidator at the first meeting of creditors.
- 2.3 In a court liquidation an insolvency practitioner may be appointed to act as provisional liquidator until the making of the winding up order. In all court liquidations, an insolvency practitioner is appointed to act as interim liquidator from the making of the winding up order until the first meeting in the liquidation, and the creditors can vote on the appointment of the liquidator at the first meeting of creditors.
- 2.4 Where a court liquidation follows immediately on an administration the court may appoint the former administrator to act as liquidator.

3 The Liquidation Committee

- 3.1 In a liquidation (whether voluntary or court) the creditors have the right to appoint a committee called the liquidation committee, with a minimum of 3 and a maximum of 5 members, to monitor the conduct of the liquidation and approve the liquidator's remuneration and disbursements. The committee is usually established at the creditors' meeting which appoints the liquidator, but in cases where a liquidation follows immediately on from an administration any committee established for the purposes of the administration will continue in being as the liquidation committee.
- 3.2 The liquidator must call the first meeting of the committee within 3 months of its establishment (or his appointment if that is later), and subsequent meetings must be held either at specified dates agreed by the committee, or when requested by a member of the committee, or when the liquidator decides he needs to hold one. The liquidator is required to report to the committee at least every 6 months on the progress of the liquidation. This provides the opportunity for the committee to monitor and discuss the progress of the insolvency and the level of the liquidator's remuneration.

4 Fixing the Liquidator's Fees

- 4.1 The basis for fixing the liquidator's (which includes an interim liquidator's) remuneration is set out in Rule 4.32 of the Insolvency (Scotland) Rules 1986, and in Section 53 of the Bankruptcy (Scotland) Act 1985 which is applied to liquidations by Rule 4.68. These Rules state that the remuneration may be a commission calculated by reference to the value of the assets which are realised but there shall in any event be taken into account the work which, having regard to that value, was reasonably undertaken, and the extent of the responsibilities in administering the estate.
- 4.2 It is for the liquidation committee (if there is one) to fix the remuneration and approve disbursements. If there is no liquidation committee, or the committee does not make the requisite determination, the liquidator's remuneration is fixed by the court.
- 4.3 Rule 4.5 lays down that the remuneration of a provisional liquidator can only be fixed by the court.

5 What Information should be Provided by the Liquidator?

5.1 When seeking agreement to his remuneration and disbursements, the liquidator should provide sufficient supporting information to enable the committee or the court to form a judgement as to whether the proposed remuneration and disbursements are reasonable having regard to all the circumstances of the case. The nature and extent of the supporting information which should be provided will depend on:

- The nature of the approval being sought;
- The stage during the administration of the case at which it is being sought; and
- The size and complexity of the case.

Where, at any creditors' meeting, the liquidator seeks agreement to the terms on which he is to be remunerated, he should provide the meeting with details of the charge-out rates of all grades of staff, including principals, which are likely to be involved on the case.

Where the liquidator seeks agreement to his remuneration during the course of the liquidation, he should always provide an up to date receipts and payments account. Where the proposed remuneration is based on time costs the liquidator should disclose to the committee or the creditors the time spent and the charge-out value in the particular case, together with, where appropriate, such additional information as may reasonably be required having regard to the size and complexity of the case. The additional information should comprise a sufficient explanation of what the liquidator has achieved and how it was achieved to enable the value of the exercise to be assessed (whilst recognising that the liquidator must fulfil certain statutory obligations that might be seen to bring no added value for creditors) and to establish that the time has been properly spent on the case. That assessment will need to be made having regard to the time spent and the rates at which that time was charged, bearing in mind the factors set out in paragraph 4.1 above. To enable this assessment to be carried out it may be necessary for the liquidator to provide an analysis of the time spent on the case by type of activity and grade of staff. The degree of detail will depend on the circumstances of the case, but it will be helpful to be aware of the professional guidance which has been given to insolvency practitioners on this subject.

The guidance suggests the following areas of activity as a basis for the analysis of time spent:

- Administration and planning
- Investigations
- Realisation of assets
- Trading
- Creditors
- Any other case specific matters

The following categories are suggested as a basis for analysis by grade of staff:

- Partner
- Manager
- Other senior professionals
- Assistants and support staff

The explanation of what has been done can be expected to include an outline of the nature of the assignment and the liquidator's own initial assessment, including the anticipated return to creditors. To the extent applicable it should also explain:

- Any significant aspects of the case, particularly those that affect the amount of time spent.
- The reasons for subsequent changes in strategy.
- Any comments on any figures in the summary of time spent accompanying the request the liquidator wishes to make.
- The steps taken to establish the views of creditors, particularly in relation to agreeing the strategy for the assignment, budgeting, time recording, or the drawing or agreement of remuneration.
- Any existing agreement about remuneration.
- Details of how other professionals, including subcontractors, were chosen, how they were contracted to be paid, and what steps have been taken to review their fees.

It should be borne in mind that the degree of analysis and form of presentation should be proportionate to the size and complexity of the case. In smaller cases not all categories of activity will always be relevant, whilst further analysis may be necessary in larger cases.

The liquidator should always make available an up to date receipts and payments account. Where the remuneration is to be charged on a time basis the liquidator should be prepared to disclose the amount of time spent on the case and the charge-out value of the time spent, together with such additional information as may reasonably be required having regard to the size and complexity of the case. Where the remuneration is charged on a percentage basis, the liquidator should provide details of any work which has been or is intended to be contracted out which would normally be undertaken directly by a liquidator or his staff.

5.2

5.3

A liquidator's disbursements are subject to approval by virtue of Rule 4.32. Where a liquidator makes, or proposes to make, a separate charge by way of disbursements to recover the cost of facilities provided by his own firm (such as room hire, document storage or communication facilities), (category 2 disbursements) he should disclose those charges to the committee or the creditors when seeking approval of his remuneration and disbursements together with an explanation of how those charges are made up. Disbursements must either be directly incurred on the case or be subject to a reasonable method of calculation and allocation and the basis on

which they are allocated must be disclosed. Such disbursements must be directly incurred on the case and subject to a reasonable method of calculation and allocation. A charge for disbursements calculated as a percentage of the amount charged for remuneration is not allowed.

- 5.4 Payments to outside parties in which the office holder or his firm or any associate has an interest should be disclosed to the body approving remuneration and should be treated in the same way as payments to himself. They therefore require specific approval as remuneration prior to being paid.
- 5.5 In Rule 4.12 of the Insolvency (Scotland) Rules 1986, a resolution may be passed fixing the basis of remuneration at the first meeting of creditors in a court liquidation. The liquidator should immediately notify the creditors of the details of the resolution, and when subsequently reporting to creditors on the progress of the liquidation, or submitting his final report, he should specify the amount of remuneration he has drawn in accordance with the resolution. Where the remuneration is based on time costs he also should provide details of the time spent and charge-out value to date and any material changes in the rates charged since the resolution was first passed. Where the remuneration is charged on a percentage basis the liquidator should provide the details set out in paragraph 5.1 above regarding work which has been sub-contracted out.
- 5.6 Paragraph 5.3 above does not however apply to a voluntary liquidation.
- 6 What if a Creditor is Dissatisfied?**
- 6.1 If a creditor believes that the liquidator's remuneration is too high he may, under Rule 4.35, apply to the court for an order that it be reduced. If the court considers the application to be well-founded, it shall make an order fixing the remuneration at a reduced amount or rate. Unless the court orders otherwise, the expenses of the application shall be paid by the applicant, and are not payable as an expense of the liquidation.
- 6.2 **As noted in paragraph 4.3 above, the remuneration of a provisional liquidator is fixed by the Court and there is no specific provision in the Insolvency Legislation to give creditors the right of appeal against the Court's determination. Consequently if a creditor is dissatisfied, any appeal must be made to the appropriate Court in accordance with normal Court rules.**
- 7 What if the Liquidator is Dissatisfied?**
- 7.1 If the liquidator considers that the remuneration fixed by the committee is insufficient he may request that it be increased by resolution of the creditors. He may also request the court for an order increasing its amount or rate, before or after recourse to the creditors. If he decides to apply to the court he must give at least 14 days' notice to the members of the committee and the committee may nominate one or more of its members to appear or be represented at the court hearing. If there is no committee, the liquidator's notice of his application must be sent to such of the creditors as the court may direct, and they may nominate one or more of their number to appear or be represented. The court may, if it appears to be a proper case, order the costs to be paid out of the assets of the company.
- 8 Other Matters Relating to Remuneration**
- 8.1 Where the liquidator realises assets on behalf of a secured creditor, he will usually agree the basis of his remuneration for dealing with charged assets with the secured creditor concerned.
- 8.2 Where two (or more) joint liquidators are appointed it is for them to agree between themselves how the remuneration payable should be apportioned. Any dispute between them may be referred to the court, the committee or a meeting of creditors.
- 8.3 There may also be occasions when creditors will agree to make funds available themselves to pay for the liquidator to carry out tasks which cannot be paid for out of the assets, either because they are deficient or because it is uncertain whether the work undertaken will result in any benefit to creditors. Arrangements of this kind are sometimes made to fund litigation or investigations into the affairs of the insolvent company. Any arrangements of this nature will be a matter for agreement between the liquidator and the creditors concerned and will not be subject to the statutory rules relating to remuneration.

SIP Dated : 1 February 2010