INSOLVENCY BULLETIN

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BANS FOR DIRECTORS WHO ABUSED THE BOUNCE BACK LOAN SCHEME

During the COVID-19 pandemic the Government implemented various financial support measures to assist small and medium sized companies which were losing revenue due to restrictions put in place to control the virus. One of those measures was the Bounce Back Loan Scheme (the "Scheme"), which was withdrawn on 31 March 2021.

The Scheme allowed accredited lenders to loan eligible businesses between £2,000 and up to 25% of their turnover (capped at a maximum of £50,000). The Government guaranteed 100% of such loans, however the company remained fully liable for the debt.

Loans were structured for repayment over 6 years with an option to extend repayment to 10 years and with no repayments or interest due for the first year. To qualify for the Scheme a business had to be based in the UK, established prior to 1 March 2020 and have been adversely impacted by COVID. Companies had to have a minimum annual turnover of £8,000 and they were only allowed to use the money lent to them for legitimate business purposes; the loans were not for personal use. Whilst many businesses have complied with the eligibility requirements, there have been a number of cases of fraudulent abuse of the Scheme by company directors.

Aamer Aslam and Razwan Ashraf, co-directors of Scholars Academy Ltd ("Scholars"), had fraudulently inflated Scholars' estimated annual turnover from £7,680 to £200,000. As a result of the falsified turnover figure Scholars received the maximum loan of £50,000. Scholars entered into creditors' voluntary liquidation in January 2021. The co-directors failed to notify the liquidator of the £50,000 loan owed to the bank which informed the liquidator of the loan.

Mr Aslam and Mr Ashraf had used the loan to make monthly payments to 4 individuals without providing any justification for such payments. Mr Ashraf had also obtained a loan for another company, Progress First Ltd ("Progress"), of which he was the sole director. He falsely inflated Progress' turnover from £38,973 to £200,000. Progress therefore received the maximum loan of £50,000. Regular payments had then been made to 3 persons with no evidence that such payments were for business purposes. Mr Aslam and Mr Ashraf have provided undertakings not to act as directors or participate in the management of a limited company for 11 and 10 years respectively.

Raitis Dzerkalis, the sole director of RDZ Solutions Ltd ("RDZ"), fraudulently inflated RDZ's annual turnover from £12,240 to £162,240. This enabled RDZ to secure a loan of £40,000 when its actual eligibility was only £3,060. Mr Dzerkalis was also found to have spent the majority of that loan for his personal benefit. Mr Dzerkalis gave a disqualification undertaking for 10 years. The Insolvency Service has commented that they *"will take swift firm action against directors who sought to abuse the scheme".*

Editor's Note

The Insolvency Service will usually grant a discount of 1 year against a proposed disqualification period if directors agree to provide an undertaking. The misconduct warranted periods on the edge of, or within the highest disqualification bracket of 11 to 15 years, albeit with such a discount and emphasises the seriousness of the directors' fraudulent actions. It is noted that Mr Ashraf, who made significant loan repayments, was disqualified for one year less than Mr Aslam.

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