

The Dutch Scheme (Wet Homologatie Onderhands Akkoord - WHOA)

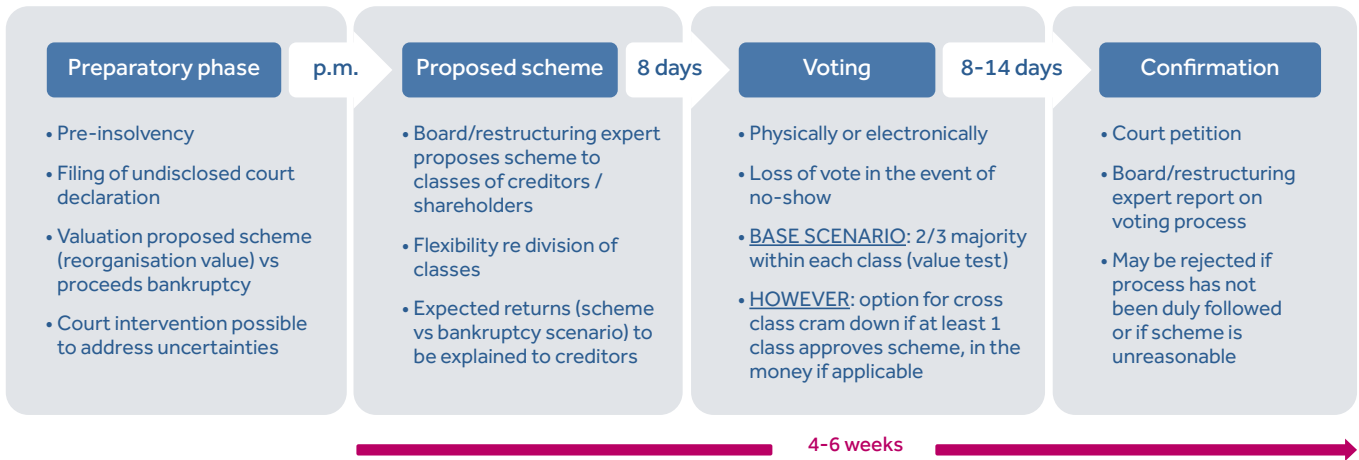
Background

- Aimed at maximising value of businesses in times of crisis
- Tool for (i) overleveraged companies, and/or (ii) companies with burdensome agreements that prevent viability
- Framework inspired by UK Scheme of arrangement and US Chapter 11 proceeding
- Leveling the playing field, as it can potentially be used as leverage in consensual restructurings or transactions

Key aspects

- Framework allowing businesses to restructure their capital structure outside formal insolvency proceedings
- Debtor in possession, potentially with involvement of a court-appointed observer or restructuring expert
- Possible to amend rights of creditors, shareholders and contractual counterparties (but not employees)
- No unanimity required: upon confirmation by the court, the scheme is binding on all affected creditors and shareholders

Process



Requirements & preparation

- Access when it is reasonably likely that the business cannot continue to pay its debts
- Operational costs should in principle be paid
- Process can be initiated by board, creditors, shareholders or employee representative body
- Mandatory court-appointed restructuring expert if the board does not take the lead
- Set-off and netting protection for bridge/emergency-financing after filing WHOA declaration
- Generally no court involvement during preparatory phase, except for e.g.:
 - standstill period (max 4 + 4 months)
 - preliminary judgments on questions / disputes (e.g., division of classes) appointment of observer or restructuring expert
 - preliminary judgment on detrimental acts
- Public or private process; choice affects international recognition and enforcement
- Works council to be notified and, if applicable, to advise

Classes & rules

- Flexibility on involving creditors / shareholders
- Creditors / shareholders with rights that materially differ are generally placed in separate classes (e.g., senior / junior creditors, tax authorities, unsecured creditors). Deviations possible (see below)
- Consent of (involved) senior class is required to exclude a more junior class from the scheme except if reasonable ground and the senior class is not (unreasonably) prejudiced
- Debt for equity swap possible
- Various shareholder's protection and corporate governance provisions set aside
- Small unsecured creditors to typically receive at least 20% distribution
- Termination of burdensome agreements possible after bilateral proposal. Termination and termination penalty can be included in scheme
- Only 1 consenting class? Then such class needs to consist of affected creditors that would receive a cash distribution in bankruptcy, if such class exists

Court confirmation

- Petition to be filed with the Dutch court
 - In case of cross class cram down: appointment observer if sanction request was not filed by a restructuring expert
 - Court tests due process at its own motion
 - Dissenting creditor / shareholder of dissenting class* may request court to reject confirmation of scheme on the basis of special circumstances, provided it timely raised its objections
- Main grounds for rejection:**
- No pre-insolvency situation
 - Reorganisation value is not 'fairly' distributed over classes (Dutch absolute priority rule)
 - Dissenting creditor / shareholder would be better off in bankruptcy ('best interest test')
 - Procedural errors, incorrect class division and/or failure in information provision

*Best interest test may also be invoked from within a consenting class