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**SUMMATIVE (FORMAL) ASSESSMENT: MODULE 2A**

**THE UNCITRAL MODEL LAWS RELATING TO INSOLVENCY**

This is the **summative (formal) assessment** for **Module 2A** of this course and is compulsory for all candidates who **selected this module as one of their compulsory modules from Module 2**. Please read instruction 6.1 on the next page very carefully.

If you selected this module as **one of your elective modules**, please read instruction 6.2 on the next page very carefully.

**The mark awarded for this assessment will determine your final mark for Module 2A**. In order to pass this module, you need to obtain a mark of 50% or more for this assessment.

**INSTRUCTIONS FOR COMPLETION AND SUBMISSION OF ASSESSMENT**

**Please read the following instructions very carefully before submitting / uploading your assessment on the Foundation Certificate web pages.**

1. You must use this document for the answering of the assessment for this module. The answers to each question must be completed using this document with the answers populated under each question.

2. All assessments must be submitted electronically in MS Word format, using a standard A4 size page and a 11-point Arial font. This document has been set up with these parameters – **please do not change the document settings in any way**. **DO NOT** submit your assessment in PDF format as it will be returned to you unmarked.

3. No limit has been set for the length of your answers to the questions. However, please be guided by the mark allocation for each question. More often than not, one fact / statement will earn one mark (unless it is obvious from the question that this is not the case).

4. You must save this document using the following format: **[student ID.assessment2A]**. An example would be something along the following lines: 202223-336.assessment2A. **Please also include the filename as a footer to each page of the assessment** (this has been pre-populated for you, merely replace the words “studentID” with the student number allocated to you). Do not include your name or any other identifying words in your file name. **Assessments that do not comply with this instruction will be returned to candidates unmarked**.

5. Before you will be allowed to upload / submit your assessment via the portal on the Foundation Certificate web pages, you will be required to confirm / certify that you are the person who completed the assessment and that the work submitted is your own, original work. Please see the part of the Course Handbook that deals with plagiarism and dishonesty in the submission of assessments. **Please note that copying and pasting from the Guidance Text into your answer is prohibited and constitutes plagiarism. You must write the answers to the questions in your own words**.

6.1If you selected Module 2A as one of your **compulsory modules** (see the e-mail that was sent to you when your place on the course was confirmed), the final time and date for the submission of this assessment is **23:00 (11 pm) GMT on 1 March 2024**. The assessment submission portal will close at 23:00 (11 pm) GMT on 1 March 2024. No submissions can be made after the portal has closed and no further uploading of documents will be allowed, no matter the circumstances.

6.2 If you selected Module 2A as one of your **elective modules** (see the e-mail that was sent to you when your place on the course was confirmed), you have a **choice** as to when you may submit this assessment. You may either submit the assessment by **23:00 (11 pm) GMT on 1 March 2024** or by **23:00 (11 pm) BST (GMT +1) on 31 July 2024**. If you elect to submit by 1 March 2024, you **may not** submit the assessment again by 31 July 2024 (for example, in order to achieve a higher mark).

**ANSWER ALL THE QUESTIONS**

**Please note that all references to the “MLCBI” or “Model Law” in this assessment are references to the Model Law on Cross-Border Insolvency.**

**QUESTION 1 (multiple-choice questions) [10 marks in total]**

Questions 1.1. – 1.10. are multiple-choice questions designed to assess your ability to think critically about the subject. Please read each question carefully before reading the answer options. Be aware that some questions may seem to have more than one right answer, but you are to look for the one that makes the most sense and is the most correct. When you have a clear idea of the question, find your answer and mark your selection on the answer sheet by highlighting the relevant paragraph **in yellow**. Select only **ONE** answer. Candidates who select more than one answer will receive no mark for that specific question.

**Question 1.1**

Which one of the following international organisations’ mandate is to further the **progressive harmonization of the law of international trade**?

1. World Trade Organization.
2. The United Nations Commission on International Trade Law.
3. The United Nations Conference on Trade and Development.

**Question 1.2**

Which trend(s) and process(es) served as a **proximate cause** for the development MLCBI?

1. Rise of corporations.
2. Internationalisation.
3. Globalization.
4. Universalism.
5. Territorialism.
6. Technological advances.

Choose the correct answer:

1. Options (i), (ii), (iii), (iv) and (vi).
2. Options (i), (ii), (iii) and (iv).
3. Options (ii), (iii), (iv) and (vi).
4. All of the above.

**Question 1.3**

Which of the following statements **incorrectly** describe the MLCBI?

1. It is legislation that imposes a mandatory reciprocity on the participating members.
2. It is a legislative text that serves as a recommendation for incorporation in national laws.
3. It is intended to substantively unify the insolvency laws of the foreign nations.
4. It is a treaty that is binding on the participating members.

Choose the correct answer:

1. Options (ii), (iii) and (iv).
2. Options (i), (ii) and (iv).
3. Options (i), (iii) and (iv).
4. All of the above are incorrect.

**Question 1.4**

Which of the below options reflect the **objectives** of the MLCBI?

1. To provide greater legal certainty for trade and investment.
2. To provide protection and maximization of value of the debtor’s assets.
3. To provide a fair and efficient administration of cross-border insolvencies that protects all creditors and the debtors.
4. To facilitate the rescue of financial troubled businesses.
5. To ensure substantive unification of insolvency laws of member-states.

Choose the correct answer:

1. Options (i), (ii), (iii) and (iv).
2. Options (ii), (iii) and (v).
3. Options (ii), (iv) and (v).
4. None of the above.

**Question 1.5**

Which **two** of the below hypotheticals demonstrate a more likely **precursor to a “cross-border insolvency”**?

1. An insolvency proceeding is commenced in jurisdiction A, but a significant asset is located outside of jurisdiction A.
2. An insolvency proceeding is commenced in jurisdiction A and immediately transferred to a foreign jurisdiction B.
3. An insolvency proceeding is commenced in jurisdiction A, in which a group of affiliated debtors has its COMI as well as all assets and liabilities.
4. An insolvency proceeding is commenced in jurisdiction A, but certain liabilities are governed by laws of a foreign jurisdiction B.
5. An insolvency proceeding is commenced in jurisdiction A, but all *de minimis* assets are located in foreign jurisdictions.

Choose the correct answer:

1. Options (i) and (ii).
2. Options (ii) and (iii).
3. Options (iii) and (v).
4. Options (i) and (v).

**Question 1.6**

A restructuring proceeding is commenced in jurisdiction A by a corporation with COMI in jurisdiction A and an overleveraged balance sheet. The court in jurisdiction A, overseeing the restructuring, entered a final and non-appealable order, approving the compromise and restructuring of the debt. The entered order, by its express terms, has a universal effect. Based on these facts alone, what is the **effect** of such order’s terms in jurisdiction B if jurisdictions A and B do **not** have a bilateral agreement?

1. Binding within jurisdiction B.
2. Binding within jurisdiction B, but certain actions need to be taken.
3. No effect within jurisdiction B.
4. Likely no effect within jurisdiction B.
5. Not enough facts provided to arrive at a conclusion.

**Question 1.7**

Which of the following statements set out the reasons for the development of the Model Law?

1. The increased risk of fraud by concealing assets in foreign jurisdictions.
2. The difficulty of agreeing multilateral treaties dealing with insolvency law.
3. To eradicate the use of comity.
4. The practical problems caused by the disharmony among national laws governing cross-border insolvencies, despite the success of protocols in practice.

Choose the correct answer:

1. Options (i), (ii) and (iii).
2. Options (i), (ii) and (iv).
3. Options (ii), (iii) and (iv).
4. All of the above.

**Question 1.8**

Which of the statements below are incorrect regarding COMI under the MLCBI?

1. COMI is a well-defined term in the MLCBI.
2. COMI stands for comity.
3. The debtor’s registered office is irrelevant for purposes of determining COMI.
4. COMI is being tested as of the date of the petition for recognition.

Choose the correct answer:

1. Options (i), (ii) and (iii).
2. Options (ii), (iii) and (iv).
3. All of the above.
4. None of the above.

**Question 1.9**

In the event of the following concurrent proceedings, indicate the order of the proceedings in terms of their hierarchy / primacy:

1. Foreign main proceeding.
2. Foreign non-main proceeding.
3. Plenary domestic insolvency proceeding.

Choose the correct answer:

1. Options (ii), (i) and then (iii).
2. Options (i), (ii) and then (iii).
3. Options (iii), (i) and then (ii).
4. Options (iii), (ii) and then (i).

**Question 1.10**

Which of the statements below are correct under the MLCBI?

1. The foreign representative always has the powers to bring avoidance actions.
2. The hotchpot rule prioritises local creditors.
3. The recognition of a foreign main proceeding is an absolute proof that the debtor is insolvent.
4. None of the above are correct.

**QUESTION 2 (direct questions) [10 marks in total]**

**Question 2.1 [maximum 3 marks]**

What is the key distinction between the application of the MLCBI and the European Union (EU) Regulation on insolvency proceedings? Also describe one key benefit and disadvantage of each approach.

The key distinction between the MLCBI and the EIR is that while the MLCBI is a recommendation or model law that could be adopted, in part or as a whole, into a State’s insolvency legislation, the EIR is a part of the domestic law of each member State.

Benefit of the EIR approach is that there is consistency of law across the various countries which should speed up insolvency proceedings and also courts will have access to case law and juris prudence across the EU. Disadvantage is that there may be conflicts between the EIR and the domestic laws on the member state.

The advantage of the model law is that it is flexible and can be adapted for inclusion into the domestic laws on an enacting State. Disadvantage of it being a model law is that there will still exist differences between various jurisdictions and there is no harmonisation.

**Question 2.2 [maximum 2 marks]**

Explain what the court should primarily consider using its discretionary power to grant post-recognition relief under Article 21 of the MLCBI.

The court should consider the following when using its discretionary power to grant relief under Article 21:

* If requested by the foreign representative:
* The court can consider granting the appropriate relief where it will be necessary to protect the assets of the business subject the foreign proceeding and also the rights and interests of the creditors
* The court may use the discretionary power granted under Article 21(2), if it is comfortable that the interests of the local creditors in its jurisdiction are adequately protected, to hand over some or all of the debtor’s assets held in the enacting State to the foreign representative (or other court authorised person)

**Question 2.3 [2 marks]**

Explain the protections granted to creditors in a foreign proceeding under Article 13 of the MLCBI.

Article 13 of the MLCBI provides anti-discrimination protection to creditors by:

* Giving foreign creditors the same rights as creditors with domicilium in the enacting State as relates to the local proceedings in respect of the debtor subject to the insolvency proceedings under insolvency laws of the enacting State. This includes the rights as relates to the commencement and participation in the local proceedings.
* These rights granted do not impact the ranking of claims in the enacting State. The foreign creditor claim may not be given a lower ranking that that of unsecured general claims if that lower ranking results only from being a foreign creditor.

**Question 2.4 [maximum 3 marks]**

What is a key distinction with respect to the relief available in foreign main versus foreign non-main proceedings?

In respect of a foreign main proceeding, Article 20 provides for automatic mandatory relief upon recognition of the proceeding. The 3 automatic consequences as relate to relief are:

* Stay in respect of the initiation or continuation of actions or proceedings as relate to the debtor’s assets, liabilities, obligations and other rights;
* Stay of any execution against the debtor’s assets and
* The inability of the assets of the debtor to be transferred, encumbered or sold on a temporary basis.

In respect of a foreign non-main proceeding, the above relief would only be available on a discretionary basis from the court (Article 21). It must be noted that the court may also apply discretionary power in respect to the granting of appropriate relief in respect of a foreign main proceeding

Article 19 allows for the application to the court by the foreign representative for interim relief on an urgent basis, prior to the recognition of the foreign main or non-main proceeding.

**QUESTION 3 (essay-type questions) [15 marks in total]**

**Question 3.1 [maximum 4 marks]**

A debtor has its COMI in Germany and an establishment in Bermuda, and both foreign main and foreign non-main proceedings as well as the recognition proceedings in the US have been opened. In this scenario, explain where the foreign proceedings must have been filed, and the likely result.

In order for a proceeding to be recognised as “foreign main”, the insolvency proceedings must be filed in the COMI of the debtor. In this case, the foreign main proceeding would have been filed in Germany.

A “foreign non-main proceeding” is an insolvency proceeding filed where the debtor has an establishment. In this case, that would in Bermuda.

It is likely that both the foreign main and foreign non-main proceedings will be recognised in the US and there will be no need for the foreign representative to open new USA insolvency proceedings.

In order for the proceedings to be recognised, the recognition requirements of Article 15 of the MLCBI will need to be met.

Recognition of the foreign proceedings must be determined by the court as quickly as possible per Article 17.

**Question 3.2 [maximum 3 marks]**

Joint provisional liquidators commenced a recognition proceeding in the US and immediately were sued and served with discovery in connection with their alleged tortious interference with contract rights of the US-based vendors of the foreign debtor. Explain the likely outcome.

The liquidators are able to apply to the US courts for urgent relief under Article 19 of the Model Law. The application requests the relief for the period from when the recognition application was made to court until the receipt of a decision in respect of the recognition application.

This will allow them as foreign representatives to protect the assets of the debtors and preserve the interest of the creditors.

The relief granted will be interim in nature and is available in respect of foreign main and foreign non-main proceedings.

The relief can include the post recognition relief in terms of Article 21 and other relief that the court may deem is required to preserve that value of the assets of the debtors or the rights of the creditors.

**Question 3.3 [maximum 4 marks]**

A foreign representative who administers assets in a debtor-in-possession-like restructuring proceeding in the UK commences a recognition proceeding in the US, setting the recognition hearing 35 days after the petition date due to the availability of the court. There is no litigation pending or threatened against the foreign debtor, but US-governed leases and intellectual property licenses have *ipso facto* clauses (that is, bankruptcy-triggered terminations) that are not enforceable under the US Bankruptcy Code. Based on these facts, explain what steps, if any, should the foreign representative take to protect the assets and why?

Under UK insolvency laws, ipso facto clauses in contracts are valid and enforceable as the English Supreme Court clarified in *Belmond Park vs BNY Corporate Trustee Services*. Following the adoption of the CIGA in June 2020, certain *ipso facto* clause as relate to the supply of goods or services will no longer be valid if the debtor is subject to UK insolvency proceedings.

As relates to the US-governed leases and IP licenses, these *ipso facto* clauses are enforceable until such time that the foreign insolvency proceedings have been recognised in the US. It would therefore be prudent for the foreign representative to apply to the US courts for interim relief under Article 19 so as to endeavour to protect the assets and prevent the counter parties to these contracts from evoking the *iso facto* clauses*.*

**Question 3.4 [maximum 4 marks]**

A foreign representative, who administers the assets of an insolvent debtor in an insolvency proceeding pending in Country A (where the foreign debtor has its registered office and not much more), commenced a proceeding in Country B to recognise the foreign proceeding as the foreign main proceeding in order to sell certain assets within the territorial jurisdiction of Country B, but unfortunately the insolvency court considering the petition for recognition denied the recognition of the foreign proceeding as a foreign main proceeding. Explain what may or should the foreign representative do next? What should the foreign representative have done at the outset?

The foreign representative may now apply to the court in Country B for recognition of the foreign proceedings in Country A as foreign non-main proceedings. The foreign representative may enjoy recognition under Article 9 in the courts of Country B. He can therefore petition court for permission to sell the assets of the debtor outside of recognised insolvency proceedings.

The foreign representative should have assessed whether Country A or Country B is the main place of business of the debtor and determine where the COMI lies. Based on the limited facts above, it appears that only certain assets of the debtor are within Country B. It is unclear whether the debtor conducts any business in Country B and whether Country B may be the COMI of the debtor. The representative should have applied to the courts in Country B for recognition of the proceedings in Country A as foreign non-main.

An alternative would be to commence domestic proceedings in country B and have these proceedings recognised in Country A as foreign main proceedings.

**QUESTION 4 (fact-based application-type question) [15 marks in total]**

**Assume you received a file for a new client of the firm. The file contains the facts described below. Based on these facts, analyse key filing strategy to ensure a successful restructuring – specifically, whether to apply for recognition of main or nonmain proceeding or both (in light of COMI / establishment analysis), what papers need to be submitted, and what relief should be requested on day one of the filing.**

The client is a Cayman Islands incorporated and registered entity. It is a financial service holding company for a number of direct and indirect subsidiaries that operate in the commercial automobile insurance sector in the United States. Globe Holdings was initially formed as a Canadian company in 2009, under the laws of Ontario, Canada. A year later, following certain reverse merger transactions, it filed a Certificate of Registration by Way of Continuation in the Cayman Islands to re-domesticate as a Cayman Islands company and changed its name to Globe Financial Holdings Inc. When it re-incorporated in the Cayman Islands in 2010 (from Canada), Globe Holdings provided various notices of its re-incorporation, including in the public filings with the Securities and Exchange Commission (SEC). Around that time, Globe Holdings retained its Cayman Islands counsel Cedar and Woods, which has regularly represented Globe Holdings for over a decade. Globe Holdings has a bank account (opened just a few days ago) in the Cayman Islands from which it pays certain of its operating expenses. Globe Holdings often holds its board meetings virtually, and not physically in the Cayman Islands, and, having obtained support for a bond restructuring, all its regular and special board meetings have been organized by its local Cayman counsel virtually. The client also maintains its books and records in the Cayman Islands. Its public filings with the SEC as well as the prospectus provided in connection with the issuance of the Notes disclosed that Globe Holdings is a Cayman Islands company and explained the related indemnification and tax consequences resulting from Globe Holdings’ place of reformation.

Globe Holdings has no business operations of its own. The business is carried out through its non-insurance company non-debtor subsidiaries that are all incorporated under the US laws and operating in the US. All employees are in the US. The headquarters are also in the US.

In April 2017, Globe Holdings offered and issued USD 25,000,000 in aggregate nominal principal amount of 6.625% senior unsecured notes due in 2023 (referenced above as the Notes) governed by New York law.

In 2019, Globe Holdings recorded on its consolidated balance sheet a significant increase in liabilities. As a result, Globe Holdings worked with external professional advisors to undertake a formal strategic evaluation of its subsidiaries’ businesses. In September 2020, Globe Holdings announced that it was informed its shares would be suspended from the NASDAQ Stock Market due to delinquencies in filing its 10-K. Thereafter, on November 6, 2020, its shares were delisted from the NASDAQ stock market.

An independent third party is actively marketing the sale of the corporate headquarters located in New York including the land, building, building improvements and contents including furniture and fixtures.

Despite these efforts to ease the financial stress, the culmination of incremental challenges consequently resulted in Globe Holdings being both cash flow and balance sheet insolvent.

Globe Holdings retained Cedar and Woods, its long-standing Cayman Islands counsel, to advise on restructuring alternatives. Upon consultations with Cayman counsel and its other professionals, Globe Holdings ultimately determined that the most value accretive path for the Noteholders was to commence a scheme under Cayman Islands law, followed by a chapter 15 recognition proceeding in the United States, most notably to extend the maturity of the Notes and obtain the flexibility to pay the quarterly interest “in kind”.

Globe Holdings expeditiously secured the support of the majority of the Noteholders of its decision to delay interest payments and restructure the Notes through a formal proceeding. Thereafter, on August 31, 2021, about 57% of the Noteholders acceded to the Restructuring Support Agreement (RSA) governed by the New York law. The RSA memorialized the agreed-upon terms of the Note Restructuring. When Globe Holdings approached its largest Noteholders regarding the contemplated restructuring, their expectations were that any such restructuring would take place in the Cayman Islands, which is reflected in the RSA.

On July 4, 2023, the client, in accordance with the terms of the RSA, applied to the Cayman Court for permission to convene a single scheme meeting on the basis that the Noteholders, as the only Scheme Creditors, should constitute a single class of creditors for the purpose of voting on the Scheme.

On July 26, 2023 the Cayman Court entered a convening order (the Convening Order) on the papers, among other things, authorizing the client to convene a single Scheme Meeting for the purpose of considering and, through a majority vote, approving, with or without modification, the Scheme. The Scheme Meeting was held in the Cayman Islands at the offices of Cedar and Woods.Given the Covid-19 pandemic, Scheme Creditors were also afforded the convenience of observing the Scheme Meeting via Zoom and in person via a satellite location in New York. Following the Scheme Meeting, the chairman of the Scheme Meeting (presiding over the meeting in person) reported to the Cayman Court that the Scheme was overwhelmingly supported by the Noteholders, with 91.83% in number and 99.34% in value voting in favor of the Scheme. The Sanction Hearing was held, and an order sanctioning the Scheme (the Sanction Order), which was filed with the Cayman Islands Registrar of Companies the same day.

During all of this time, a class action litigation was in the US was brewing but has been filed yet.

**Key filing strategy**

The determination of the Centre of Main Interest as relates to Globe Holdings is required to determine what sort of recognition should be sought in the US courts.

In order to determine the **COMI**, 2 factors must be considered:

* Where central administration of Globe Holdings takes place and
* Is the COMI determinable by the creditors of Globe Holdings.

In the above facts, Globe is registered in the Cayman Islands, it maintains its books and records in the Cayman Islands, the SEC documents disclose Globe as a Cayman Islands business and Globe is being reorganized in Cayman Islands and the creditors of the scheme.

It thus appears that the **COMI of Globe is the Cayman Islands**.

The reorganization relates to the notes of Globe and is unrelated to the operating subsidiaries in the USA.

It appears that Globe had an establishment, at some point, in the USA with having a head office building in New York.

As relates to the filing for recognition of restructuring of the unsecured notes per the RSA, Globe would be filing in the US Courts for the recognition of the adopted restructuring proceedings as have taken place in the Cayman Islands. The Cayman Islands as shown above is the COMI of Globe.

The filing in the USA would be done per Chapter 15 which is how the US Bankruptcy Code has adopted the Model Law.

Based on the above, Globe should file **Foreign Main proceeding** as the proceedings relate to its COMI.

Under Article 15 of the model law, Globe’s foreign representative will need to apply to the US court for the recognition of the Global restructuring proceedings in Cayman Islands. The application to court should include the following documentation:

* A certified copy of Globe’s decision to commence the Cayman Islands based restructuring scheme and a copy of the decision to appoint the foreign representative; or
* A certificate from the Cayman Islands court confirming the existence of the Cayman based restructuring scheme. This would be the Sanction Order as issued by the Cayman Court. A certificate from the court confirming the appointment of the foreign representative as related to the foreign proceedings will also be required; or
* If neither of the above evidence is available, any other document that the US court would accept as confirmation of the existence on the foreign proceeding and appointment of the foreign representative. This could be evidenced in this case by retrieving the Sanction Order from the Cayman Islands Registrar of Companies.
* The foreign representative will also need to include a statement which details any and all insolvency proceedings as relate to Global that the foreign representative is aware of.

Given the nature of the investment holding of Globe, the fact that there are no employees in Cayman, the headquarters are in the USA and that a bank account was only recently opened in Cayman, it could be argued that there is only an **establishment** in the Cayman Islands. As a result, the foreign proceeding could then be recognized as foreign non-main.

It may be prudent to file a concurrent application to the courts for recognition of a foreign non-main proceeding so as to ensure that a foreign proceeding is recognized by the US courts. The documentation requirements for the foreign non-main proceedings would be the same as above for the foreign main proceeding.

Given that there may be potential litigation against Globe and/or the foreign representative at some point in the near future, it may be prudent for the foreign representative to apply to the relevant US court for interim relief under Article 19.

The application for relief would apply from the date of submission of the filing for recognition to the date upon which the court provides a decision on the recognition application.

If granted, this interim relief could protect Globe and the foreign representative from the class action litigation.

**\* End of Assessment \***