



SUMMATIVE (FORMAL) ASSESSMENT: MODULE 3A
THE INSOLVENCY SYSTEM OF THE UNITED STATES

This is the **summative (formal) assessment** for **Module 3A** of this course and is compulsory for all candidates who **selected this module as one of their compulsory modules from Module 3**. 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 3A. 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: **[studentID.assessment3A]**. An example would be something along the following lines: 202122-514.assessment3A. **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.**
- 6.1 If you selected Module 3A 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 2022**. The assessment submission portal will close at 23:00 (11 pm) GMT on 1 March 2022. 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 3A 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 2022** or by **23:00 (11 pm) BST (GMT +1) on 31 July 2022**. If you elect to submit by 1 March 2022, you **may not** submit the assessment again by 31 July 2022 (for example, in order to achieve a higher mark).
7. Prior to being populated with your answers, this assessment consists of **8 pages**.

ANSWER ALL THE QUESTIONS

Commented [H(1)]: Total marks 38/50

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

Commented [H(2)]: Total marks 8/10

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

Commented [H(3)]: Correct, 1 mark

ABC Corp is filing for bankruptcy under chapter 11. Which of the following **is not** a party in interest in that proceeding?

- (a) A neighboring land owner who has leased equipment to ABC Corp.
- (b) ABC's government regulator.
- (c) A bank that has loaned money to ABC.
- (d) A local advocacy group.**
- (e) All of the above.

Question 1.2

Commented [H(4)]: Incorrect, the correct response is (a)

Which of the following statements regarding executory contracts is **false**?

- (a) Executory contracts are clearly defined by the bankruptcy code.
- (b) Chapter 11 debtors have greater flexibility than chapter 7 debtors on when they may assume, assign or reject an executory contract.
- (c) In the most common formulation, executory contracts are defined as those where both sides to a contract have material unperformed obligations.
- (d) A court will generally defer to a debtor's business judgment regarding whether to assume or reject an executory contract.**
- (e) Under the hypothetical test, a debtor cannot assume an executory contract if the debtor could not also assign the contract.

Question 1.3

Commented [H(5)]: Correct, 1 mark

In which of the following scenarios does a bankruptcy court have constitutional authority to issue a final order? Assume in each that the counterparty to the dispute has not consented to the bankruptcy court's exercise of jurisdiction.

- (a) A counterclaim against the estate that introduces a question under state law.
- (b) Since the list of core proceedings is non-exhaustive, a bankruptcy court may issue a final determination on any matter that comes before it.

(c) A creditor's claim against an affiliate of the debtor that has guaranteed the debtor's obligation to the creditor

(d) A debtor's motion to dismiss an involuntary bankruptcy petition.

(e) None of the above.

Question 1.4

Commented [H(6): Correct, 1 mark

Which of the following statements about "pre-packs" is **false**?

(a) A pre-pack cannot be used if the debtor wishes to reject executory contracts.

(b) Creditors must have sufficient information about the debtor and the plan to make an informed voting decision.

(c) A pre-pack debtor may spend as little as a single day in bankruptcy.

(d) The proposed plan of reorganization is submitted to the bankruptcy court together with the voluntary petition.

(e) Creditors' commitment to vote in favor of the plan may be memorialized in a restructuring support agreement.

Question 1.5

Commented [H(7): Correct, 1 mark

Which of the following statements regarding cramdowns is **true**?

(a) If one insider creditor approves of the plan of reorganization, all other impaired classes may be crammed down.

(b) Because cramdowns do not require the consent of all classes, the plan of reorganization may not be fair and equitable to all impaired classes.

(c) Differential treatment of different classes is permitted if there is a reasonable, good faith basis for doing so and such treatment is required for the plan of reorganization to be successful.

(d) Class definition is rarely a battleground when a debtor tries to cramdown classes.

(e) Dissenting creditors are not permitted to challenge the classification of a creditor supporting the cramdown.

Question 1.6

Commented [H(8): Correct, 1 mark

Which of the following statements about the plan exclusivity period is **true**?

(a) The exclusivity period is 1 year.

(b) The exclusivity period cannot be extended.

(c) The exclusivity period cannot be shortened.

(d) During the exclusivity period, only a creditor may propose a plan of reorganization.

(e) During the exclusivity period, only the debtor may propose a plan of reorganization.

Question 1.7

Commented [H(9)]: Correct, 1 mark

Which of the following statements about chapter 15 is **false**?

(a) The automatic stay applies upon the filing of a petition for recognition.

(b) A debtor cannot be subject to an involuntary chapter 15 proceeding.

(c) A chapter 15 petition must be filed by a foreign representative.

(d) The automatic stay applies only to property within the territorial jurisdiction of the United States.

(e) Recognition may be granted to a foreign proceeding as either foreign main or foreign non-main.

Question 1.8

Commented [H(10)]: Incorrect, the correct response is (c)

Which of the following statements about 363 sales is **false**?

(a) A 363 sale permits a debtor to sell an asset free and clear of encumbrances.

(b) A creditor's lien on assets sold in a 363 sale attaches to the proceeds of the sale.

(c) A 363 sale must be conducted as an auction with a stalking horse bidder.

(d) Purchasers may pay a higher price for assets sold in a 363 sale than in an out-of-court transaction.

(e) Sophisticated parties will insist on a 363 sale if there is any question regarding whether the sale is "in the ordinary course of business".

Question 1.9

Commented [H(11)]: Correct, 1 mark

If a debtor rejects an executory trademark license agreement under which it licenses a trademark to its counterparty, which of the following is **true**?

(a) The counterparty has a claim for damages for breach of contract.

(b) The counterparty must immediately stop using the trademark.

(c) The counterparty can continue using the trademark for the remaining period of the license.

(d) Both (a) and (b).

(e) Both (a) and (c).

Question 1.10

Who may serve as a foreign representative to seek recognition of a foreign proceeding under chapter 15?

- (a) The board of directors of the debtor if it is a debtor-in-possession in the foreign proceeding.
- (b) An insolvency professional appointed by a creditor where the foreign proceeding is an involuntary receivership.
- (c) An officer of the debtor if it is a debtor-in-possession in the foreign proceeding.
- (d) An insolvency professional appointed by the court overseeing the foreign proceeding.
- (e) All of the above.

Commented [H(12)]: Correct, 1 mark

QUESTION 2 (direct questions) [10 marks]

Commented [H(13)]: Total marks 8/10

Question 2.1 (2 marks)

Commented [H(14)]: Total marks 2/2

What is the difference between a voluntary petition for bankruptcy and an involuntary petition for bankruptcy?

A voluntary petition for bankruptcy is when a debtor applies to make itself bankrupt. On the contrary, an involuntary petition is when the creditor petitions for the debtor's bankruptcy.

Commented [H(15)]: Correct, 1 mark

Commented [H(16)]: Correct, 1 mark

Question 2.2 (2 marks)

Commented [H(17)]: Total marks 1/2

What are two potential consequences of a violation of the automatic stay?

Creditors that willfully violate the automatic stay may be liable to debtors for payment of debtor's attorneys' fees, and other implied fees. It also requires the violator to take affirmative acts to undo the effect of its violation.

Commented [H(18)]: Correct, 1 mark, these may be imposed as sanctions for contempt. The act itself is void or voidable, depending on the circuit.

Question 2.3 (3 marks)

Commented [H(19)]: Total marks 3/3

In what circumstances is a claim considered "impaired"? When is a holder of an impaired claim not entitled to vote on a proposed plan of reorganization and what happens instead?

A claim is considered impaired when those allowed secured and unsecured claims included in the Plan alters the "legal, equitable and contractual rights unaltered". A holder of an impaired claim which must not receive something under the plan are not entitled to vote on this plan. Those classes of claims are presumed to have rejected the plan.

Commented [H(20)]: Correct, 1 mark

Commented [H(21)]: Correct, 1 mark

Commented [H(22)]: Correct, 1 mark

Question 2.4 (3 marks)

Commented [H(23)]: Total marks 2/3

Answer the following questions about preferences, actual fraudulent conveyances and constructive fraudulent conveyances:

- (1) Which cause of action applies only to transfers made on account of antecedent debt?

The preferences cause of actions arise only to transfers made on account of antecedent debt.

Commented [H(24)]: Correct, 1 mark

(2) Which cause of action requires that the debtor be presumed or proven to have been insolvent at the time of the transfer?

A constructive fraudulent conveyance requires that the debtor be presumed or proven to have been insolvent at the time of the transfer.

Commented [H(25)]: Incorrect, the correct response is preference

(3) Which cause of action requires that the debtor be proven to have intended to frustrate creditors' recoveries?

An actual fraudulent conveyance requires that the debtor be proven to have intended to frustrate creditors' recovery.

Commented [H(26)]: Correct, 1 mark

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

Commented [H(27)]: Total marks 13/15

Question 3.1 (3 marks)

Commented [H(28)]: Total marks 2/3

How did *Stern v Marshall* change the law of bankruptcy court jurisdiction and authority to enter a final order?

Until 2011 (*Stern v Marshall*), the bankruptcy courts jurisdiction was focused on the core/non-core distinction o resolve issue. In 2011 however, the US Supreme Court stated that even in core proceedings, bankruptcy court cannot issue final orders that invade Article III jurisdiction. In that case, a bankruptcy claimed had been filed against the debtor and the debtor counterclaimed. US laws permits parallel proceedings and state that the first judgement is binding on the parties. While the bankruptcy court issued its judgement first, the state court jury verdict was the binding one. In fact, the US Supreme Court held that a bankruptcy court as a non-Article III court lacked constitutional authority under Article III of the US Constitution to enter a final judgement on a state law counterclaim.

Commented [H(29)]: Correct, 1 mark

Commented [H(30)]: Correct, 1 mark, however a bankruptcy court may enter a final order on a challenge to a petition or with consent of the parties

Question 3.2 (3 marks)

Commented [H(31)]: Total marks 2/3

What provisions of the Bankruptcy Code may not be invoked by a foreign representative in a chapter 15 proceeding? What are two ways that the foreign representative can obtain equivalent relief?

Following the Model Laws, in a Chapter 15 proceeding, the use of avoidance powers provided by the Bankruptcy Code may not be invoked by a foreign representative. A foreign representative can only invoke the Bankruptcy Code avoidance powers in a plenary proceeding such as Chapter 7 or 11. To have access to the Bankruptcy Code's avoiding powers, a foreign representative may wish to commence a plenary proceedings.

Commented [H(32)]: Correct, 1 mark

Commented [H(33)]: Correct, 1 mark, or the foreign rep may bring analogous claims under foreign or non-US bankruptcy law

Question 3.3 (4 marks)

Commented [H(34)]: Total marks 4/4

Describe the differences between interlocutory and final orders and how an appeal may be taken from each. Which courts hear direct appeals from bankruptcy court orders?

Final orders dispose of all issues in a cause of actions as such it is subject to immediate appeal. While interlocutory orders give intermediate stage and provide provisional decision on some issues or claims. Thus, an interlocutor order is not final and may not be appealed except leave of the appellate court (few extraordinary cases). In general, appeals from bankruptcy court decisions are heard by the district court for the district in which they sit. But in certain circuits, bankruptcy appeals could be heard by a Bankruptcy Appellate Panel (BAP).

Commented [H(35)]: Correct, 1 mark

Commented [H(36)]: Correct, 1 mark

Commented [H(37)]: Correct, 1 mark

Commented [H(38)]: Correct, 1 mark

Commented [H(39)]: Correct, 1 mark

Commented [H(40)]: Correct, 1 mark

Question 3.4 (5 marks)

Commented [H(41)]: Correct, 5 marks

What fiduciary duties do directors of Delaware corporations owe and to whom are the duties owed in the ordinary course of business? To whom are duties owed when the corporation is potentially or actually insolvent?

Directors of Delaware corporations are subject to the fiduciary duties of care in educated decision and loyalty to the corporation's best interest (which include the subsidiary duties of good faith, oversight, and disclosure).

Commented [H(42)]: Correct, 1 mark

Commented [H(43)]: Correct, 1 mark

Directors' duties are owed to the corporation and its shareholders, not to creditors, even when the corporation is potentially or actually insolvent (the shareholders stand to receive nothing in bankruptcy). The Delaware Supreme Court put aside any duties to the creditors from the directors even if the company is insolvent.

Commented [H(44)]: Correct, 1 mark

Commented [H(45)]: Correct, 1 mark

Commented [H(46)]: Correct, 1 mark

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

Commented [H(47)]: Total marks 9/15

Question 4.1 [4 marks]

Commented [H(48)]: Total marks 2/4

Gambling Corporation is incorporated and has a principal place of business in Greece and it operates casinos and betting parlors in many international cities, including Athens, Las Vegas, London and Macau. Gambling Corp's bonds (governed by English law) are due to mature in one (1) year, but it is unable to repay or refinance them. Gambling Corp is considering using an English scheme of arrangement to restructure the bonds.

Discuss whether the English scheme of arrangement could be granted recognition under US chapter 15 as a foreign main or foreign non-main proceeding.

Discussing whether the English scheme of arrangement could be granted recognition under US chapter 15 as a foreign main or foreign non-main proceeding is to discuss about Gambling Corporation center of main interest (COMI). While operating and betting parlors in many international cities including Athens, Las Vegas, London and Macau, Gambling Corp is incorporated and has a principal place of business in Greece. Moreover, the Gambling Corp's bonds is governed by English law. But as noted, Gambling Corp has an establishment in the US while operating in Las Vegas. As such the English scheme of arrangement could be granted recognition under US Chapter 15 as a foreign non-main proceeding.

Commented [H(49)]: Correct, 1 mark

Commented [H(50)]: Incorrect, the relevant establishment is the casino in London where the scheme of arrangement is pending

Commented [H(51)]: Correct, 1 mark, and foreign main is not available because the proceeding is not in the jurisdiction of the debtor's COMI

Commented [H(52)]: Total marks 4/5

Question 4.2 [5 marks]

Oil Corporation is incorporated in Delaware and has its principal place of business in Texas. Oil Corp is facing a number of challenges to its business. First, ShipCo, one of its key customers, has filed a breach of contract lawsuit in Texas state court alleging that Oil Corp sold it contaminated oil that caused USD 1 billion in damage to ShipCo's container ships. Second, the US Department of Justice is investigating whether Oil Corp illegally purchased oil

from countries subject to US sanctions. Third, Oil Corp. has missed a payment on its secured loan from USA Bank, and USA Bank is threatening to foreclose on an Oil Corp refinery located in the Philippines. Fourth, because of all these distractions, Oil Corp has forgotten to pay rent on its Houston, Texas office space and its landlord is threatening to evict it. What would be the effect of Oil Corp filing a chapter 11 petition on each of these four situations?

If Oil Corp is filing a chapter 11 petition, then Oil Corp can invoke the automatic stay. As such during a period of time all judgements, foreclosures and repossessions of property are suspended, and the company can continue to operate in ordinary course of businesses. Though, the first situation, where ShipCo has filed a breach of contract lawsuit will be on hold during the time of reorganization. Under the automatic stay, the USA Bank can no longer threatening to foreclose on an Oil Corp refinery. As part of the continuing ordinary business, the landlord can no longer threaten to evict Oil Corp from its Houston office (as a principal place of business).

Commented [H(53): Correct, 1 mark

Commented [H(54): Correct, 1 mark

Commented [H(55): Correct, 1 mark

Commented [H(56): Correct, 1 mark, however the criminal investigation will be permitted to continue

Question 4.3 [6 marks]

Commented [H(57): Total marks 3/6

Oil Corp has filed for bankruptcy and is planning to sell its plastic manufacturing business through a 363 sale. The plastic manufacturing business operates under the trademark "Interconnect", which is licensed from Plastic Corp. Oil Corp has invented several patented processes for plastic manufacturing, which it licenses to Plastic Corp. The main manufacturing facility for the plastic business is in Dallas, and Oil Corp has granted a lien on the facility to USA Bank to secure its USD 500 million loan.

Oil Corp thinks it will get the highest return for the plastics manufacturing business if it can (i) assume and assign the trademark license; (ii) reject the patent licenses so the purchaser has the exclusive right to use the patents; and (iii) sell the manufacturing facility free and clear of the USA Bank lien. Can Oil Corp achieve each of these goals without the consent of Plastic Corp and USA Bank? Why or why not?

Regarding (i) assume and assign the trademark license: Oil Corp cannot achieve this goal without the consent of Plastic Corp. In fact, a trademark license is not assignable absent licensor consent. Because it is licensed from Plastic Corp's trademark ("Interconnect"), Oil corp needs the consent from Plastic Corp.

Commented [H(58): Correct, 1 mark

Commented [H(59): Correct, 1 mark

(ii) reject the patent licenses so the purchaser has the exclusive right to use the patents: As licenses of patents owned by Oil Corp, it can transfer its interest in such patents

Commented [H(60): Incorrect, the licensee will be entitled to continue practicing the patents under section 365(n) of the Bankruptcy Code, so exclusivity cannot be granted without the consent of Plastic Corp

(iii) sell the manufacturing facility free and clear of the USA Bank lien: As part of the chapter 11 proceedings, a debtor can sell its property free and clear of creditors interests with court approval in a 363 sale under section 363(f) if the interest is a lien by promoting the maximization of the value of the estate assets. As such, Oil Corp can sell the manufacturing facility free and clear of the USA bank lien.

Commented [H(61): Correct, 1 mark, and the lien will attach to the proceeds of the sale

*** End of Assessment ***