



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: 202122-336.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.**
- 6.1 If 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 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 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 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 **12 pages**.

ANSWER ALL THE QUESTIONS**Total: 33 out of 50 marks**

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 of the following statements **incorrectly** reflects the main purpose of the Model Law?

- (a) The Model Law provides effective mechanisms for dealing with cases of cross-border insolvency so as to promote a number of objectives, including the protection and maximisation of trade and investment.
- (b) The Model Law provides effective mechanisms for dealing with cases of cross-border insolvency so as to promote a number of objectives, including the fair and efficient administration of cross-border insolvencies that protects the interests of all creditors and other interested persons, not including the debtor.
- (c) The Model Law is a substantive unification of insolvency law so as to promote co-operation between courts of the enacting State and foreign States and facilitation of the rescue of financially troubled businesses.
- (d) All of the above.**

Question 1.2

Which of the following statements is **unlikely** to be a reason for the development of the Model Law?

- (a) The existence of a statutory basis in national (insolvency) laws for co-operation and co-ordination of domestic courts with foreign courts or foreign representatives.**
- (b) The difficulty of agreeing multilateral treaties dealing with insolvency law.
- (c) The practical problems caused by the disharmony among national laws governing cross-border insolvencies, despite the success of protocols in practice.
- (d) None of the above.**

Question 1.3

Which of the following challenges to a recognition application under the Model Law **is most likely to be successful?**

- (a) The registered office of the debtor is not in the jurisdiction where the foreign proceedings were opened, but the debtor has an establishment in the jurisdiction of the enacting State.
- (b) The registered office of the debtor is in the jurisdiction of the enacting State, but the debtor has an establishment in the jurisdiction where the foreign proceedings were opened.
- (c) The debtor has neither its COMI nor an establishment in the jurisdiction where the foreign proceedings were opened.
- (d) The debtor has neither its COMI nor an establishment in the jurisdiction of the enacting State.

Question 1.4

“Cross-border insolvencies are inherently chaotic and value evaporates quickly with the passage of time”. Which of the following rules or concepts set forth in the Model Law **best addresses** this feature of cross-border insolvencies?

- (a) The *locus standi* access rules.
- (b) The public policy exception.
- (c) The safe conduct rule.
- (d) The “hotchpot” rule.

Question 1.5

For a debtor with its COMI in South Africa and an establishment in Brazil, foreign main proceedings are opened in South Africa and foreign non-main proceedings are opened in Brazil. Both the South African foreign representative and the Brazilian foreign representative have applied for recognition before the relevant court in the UK. Please note that South Africa has implemented the Model Law subject to the so-called principle of reciprocity (based on country designation), Brazil has not implemented the Model Law and the UK has implemented the Model Law without any so-called principle of reciprocity. In this scenario, **which of the following statements is the most correct one?**

- (a) The foreign main proceedings in South Africa will not be recognised in the UK because the UK is not a designated country under South Africa’s principle of reciprocity, but the foreign non-main proceedings in Brazil will be recognised in the UK despite Brazil not having implemented the Model Law.
- (b) Both the foreign main proceedings in South Africa and the foreign non-main proceedings in Brazil will not be recognised in the UK because the UK has no principle of reciprocity and Brazil has not implemented the Model Law.

(c) Both the foreign main proceedings in South Africa and the foreign non-main proceedings in Brazil will be recognised in the UK.

(d) None of the statements in (a), (b) or (c) are correct.

Question 1.6

Which of the following statements regarding concurrent proceedings under the Model Law **is true**?

(a) No interim relief based on Article 19 of the Model Law is available if concurrent domestic insolvency proceedings and foreign proceedings exist at the time of the application of the foreign proceedings in the enacting State.

(b) In the case of a foreign main proceeding, automatic relief under Article 20 of the Model Law applies if concurrent domestic insolvency proceedings and foreign proceedings exist at the time of the application of the foreign proceedings in the enacting State.

(c) The commencement of domestic insolvency proceedings prevents or terminates the recognition of a foreign proceeding.

(d) If only after recognition of the foreign proceedings concurrent domestic insolvency proceedings are opened, then any post-recognition relief granted based on Article 21 of the Model Law will not be either adjusted or terminated if consistent with the domestic insolvency proceedings.

Question 1.7

When using its discretionary power to grant post-recognition relief pursuant to Article 21 of the Model Law, what should the court in the enacting State primarily consider?

(a) The court must be satisfied that the interests of the creditors and other interested parties, excluding the debtor, are adequately protected.

(b) The court should consider whether the relief requested is necessary for the protection of the assets of the debtor or the interests of the creditors and strike an appropriate balance between the relief that may be granted and the persons that may be affected.

(c) The court should consider both (a) and (b).

(d) Neither (a) nor (b) must be considered by the court.

Question 1.8

Which of the statements below regarding the Centre of Main Interest (or COMI) and the Model Law **is incorrect**?

(a) COMI is a defined term in the Model Law.

(b) For a corporate debtor, the Model Law does contain a rebuttable presumption that the debtor's registered office is its COMI.

(c) While (for purposes of the Model Law) the COMI of a debtor can move, the closer such COMI shift is to the commencement of foreign proceedings, the harder it will be to establish that the move was "ascertainable by third parties".

(d) None of the above.

Question 1.9

Which of the following types of relief have, prior to the adoption of the Model Law on Recognition and Enforcement of Insolvency-Related Judgments, been declared beyond the limits of the Model Law?

(a) Enforcement of insolvency-related judgments.

(b) An indefinite moratorium continuation.

(c) Both (a) and (b).

(d) Neither (a) nor (b).

Question 1.10

When for the interpretation of the Model Law “its original origin” is to be considered in accordance with article 8 of the Model Law, which of the following texts is likely to be of relevance?

(a) The UNCITRAL Guide of Enactment and the Practice Guide.

(b) The UNCITRAL Guide of Enactment and the Legislative Guide – Parts One, Two, Three and Four.

(c) The UNCITRAL Guide of Enactment and the Judicial Perspective.

(d) All of the above.

QUESTION 2 (direct questions) [10 marks in total] 7 marks

Question 2.1 [maximum 3 marks] 2 mark

Under the MLCBI, explain what the appropriate date is for determining the COMI of a debtor, or whether an establishment exists.

The MLCBI does not specifically set out what the appropriate date will be for determining the COMI or whether an establishment exists. However, the GEI provides guidance on this point, notably suggesting that the date of commencement of the foreign proceeding should be taken as the date for determining the COMI or whether an establishment exists. The use of the date of commencement of the foreign proceeding as the date of determination is useful for a number of reasons – in particular, it has regard to the possibility that the debtor may cease to maintain economic activity following commencement of the foreign proceeding; and it provides an objective test which can be applied across all foreign insolvency proceedings.

For full marks it should be noted that different jurisdictions have slightly different approaches to this.

Question 2.2 [maximum 3 marks] 3 marks

The following **three (3) statements** relate to particular provisions / concepts to be found in the Model Law. Indicate the name of the provision / concept (as well as the relevant Model Law article), addressed in each statement.

Statement 1 “*This Article provides guidance in case of concurrence of two foreign non-main proceedings.*”

Statement 2 “*The rule in this Article does not affect secured claims.*”

Statement 3 “*This Article contains a rebuttable presumption in respect of an undefined key concept in the MLCBI.*”

Statement 1: Article 30 – No foreign proceeding is *a priori* preferred. In a case of two or more concurrent foreign non-main proceedings, courts must facilitate co-ordination of the proceedings and no particular foreign non-main proceeding will be ‘preferred’ or treated as ‘more main’ than another.

Statement 2: Article 32 – Hotchpot Rule. Aims to ensure *pari-passu* treatment of creditors across jurisdictions, i.e. a creditor which received a dividend in one jurisdiction (where others have not) should have its dividend another proceeding reduced proportionally. This does not affect secured creditors’ rights to enforce security interests.

Statement 3: Article 16 – Recognition Presumptions. Rebuttable presumption that debtor’s registered office will also be the place of its COMI

Question 2.3 [2 marks] 1

In the *IBA* case appeal, the English Court of Appeal upheld the decision that the court should not exercise its power to grant the indefinite Moratorium Continuation. **Please explain.**

The case was essentially an attempt to challenge the existing English principle, the ‘rule in *Gibbs*’ (which provides that where a creditor holds an English-law governed debt claim against a debtor, a foreign insolvency proceeding of the debtor cannot, by itself, cause that English-law governed debt to become discharged) having regard to the Model Law. A debtor asserted that the judge should, under the UK’s Cross-Border Insolvency Regulations 2006 (being the domestic-law adoption of the Model Law), grant an indefinite moratorium against the enforcement of a creditor’s claim against the debtor. However, the creditor relied on *Gibbs* to object to the application, which was successful in the Court of Appeal. The effect of the decision is that, despite the UK’s adoption of the Model Law, creditors who hold English-law governed claims against a debtor will not be prevented from taking enforcement action where a foreign insolvency proceeding has been commenced.

It should also be mentioned that Based on Article 18 of the MLCBI, the English Court of Appeal in the *IBA* case appeal held that had the MLCBI ever contemplated the continuance of relief after the end of the relevant foreign proceeding, it would have addressed the question explicitly and provided appropriate machinery for that purpose.

Question 2.4 [2 marks]

In terms of relief, what should the court in an enacting State, where a domestic proceeding has already been opened in respect of the debtor, do after recognition of a foreign main proceeding? In your answer you should **mention the most relevant article of the MLCBI.**

What (ongoing) duty of information does the foreign representative in the foreign main proceeding have towards the court in the enacting State? Here too you are required to **mention the most relevant article of the MLCBI.**

Article 21 details the discretionary powers available to a court in the enacting State where a domestic proceeding is open and a foreign main proceeding has been recognised. Importantly, the court should take steps, using its discretionary powers, to ensure that the assets of the debtor and/or the interests of its creditors are protected. Such available relief is broad but may include, *inter alia*, the staying of proceedings in respect of the debtor's assets; transferring or delivering administration of the debtor's assets to the foreign representative, and, broadly, providing to the foreign representative any relief which would be available to the domestic insolvency representative. This 'broad-brush' approach in the Model Law allows courts where the Model Law has been adopted to generally take any steps necessary to protect the interests of creditors and the assets of debtors. Article 18 provides that a foreign representative has a duty to keep the domestic court abreast of changes such as the status of the foreign representatives appointment / proceeding, any other relevant proceedings, and other relevant changes generally.

The correct answer to the first question is art 29(a)

QUESTION 3 (essay-type questions) [15 marks in total] 10 marks

A foreign representative of a foreign proceeding opened in State B in respect of a corporate debtor (the Debtor) is considering whether or not to make a recognition application under the implemented Model Law of State A (which does not contain any reciprocity provision). In addition, the foreign representative is also considering what (if any) relief may be appropriate to request from the court in State A.

Write a brief essay in which you address the three questions below.

Question 3.1 [maximum 4 marks]

Prior to making a recognition application in State A, explain how access and co-ordination rights in State A can benefit the foreign representative?

One primary aspect of access and co-ordination rights is simply the opening of communication lines between the foreign representatives and the domestic Court, which the foreign representative in this case could use to liaise with the Court in State A in relation to initial steps, such as (potentially) the granting of urgent interim relief (see Q3.3 below).

As well as possible relevant domestic laws in State A, coordination rights are provided for in Article 25 of the Model Law, which provides that State A "*shall cooperate to the maximum extent possible*" with the foreign (State B) representative. Article 25 also provides for an entitlement to inter-Court and Court-Foreign Representative communications.

Such communication facilitates appropriate and timely action by the foreign representative in the initial stages of their conduct in State A. Whilst this is access and coordination is further supported by a later granting of recognition, the two are not necessarily linked and, by using access and coordination rights, the foreign representative may be able to take certain appropriate initial steps without needing a more costly full recognition application.

For full marks, reference should be made to art. 9 and 11.

Question 3.2 [maximum 5 marks] 4 marks

For a recognition application in State A to be successful, the foreign proceeding opened in State B must qualify as a “foreign proceeding” within the meaning of article 2(a) of the MLCBI and the “foreign representative” must qualify as a foreign representative within the meaning of article 2(d) of the MLCBI. Assuming both qualify as such, list and briefly explain (with reference to the relevant MLCBI articles) any other evidence, restrictions, exclusions and limitations that must be considered, as well as the judicial scrutiny that must be overcome for a recognition application to be successful.

- Various evidential requirements – see Article 15 – being one of the following:
 - Certified copy of the instrument, decision (e.g. Court Order) etc. which commenced the foreign proceeding (or appointed the foreign representative)
 - A Court Certificate (from the foreign court) confirming the appointment of the foreign representative / commencement of the foreign proceeding
 - Other evidence acceptable to the domestic Court (i.e. in which the foreign proceeding is seeking to be recognised) for the existence./validity of the foreign proceeding/foreign representatives appointment
- Also required under Article 15:
 - Statement by the foreign representatives of all other known foreign proceedings in respect of the debtor
 - Potentially (at the Court’s discretion unless otherwise enacted by the domestic State), a translation of any documents filed with the court in respect of the recognition application
- Article 17 provides that recognition applications which meet the requirements of Article 15 should be granted as a matter of course, however there are a number of further restrictions, such as:
 - Recognition will always be subject to other laws and treaties – for example Article 3 states that a treaty will always prevail over the Model Law (where a treaty is in place)
 - Public policy grounds in the enacting State may prevent a recognition application from being granted
 - The recognition may be modified or terminated if it is found that the granting of the application was made on grounds which were lacking, in full or in part, or if proper grounds at the time of the application no longer exist. This is particularly relevant as the model law provides that applications should be decided upon as soon as possible – so there must be scope for the Court to modify or terminate decisions made, necessarily, in haste.
- In addition, it should be considered that (assuming recognition is granted) the foreign main proceeding will be recognised as either a main or non-main proceeding depending on whether the proceeding is in the state of the entity’s COMI (main proceeding) or if the entity simply has an establishment in that state (non-main proceeding).

For full marks on this question, reference should also be made to art. 1(2) exclusions

Question 3.3 [maximum 5 marks] 3 marks

As far as relief is concerned, briefly explain (with reference to the relevant MLCBI articles) what pre- and post-recognition relief can be considered in the context of the MLCBI, as well as any restrictions, limitations or conditions that should be considered in this context. For purposes of this question, it can be assumed that there is no concurrence of proceedings.

The foreign representative will enjoy an entitlement to apply, and potentially be granted, pre-recognition relief under Article 19 of the Model Law, namely urgently needed interim relief to allow the foreign representative to take preliminary steps in State A prior to obtaining formal recognition through the Courts.

Such urgent interim relief is available to representatives of both foreign main proceedings and foreign non-main proceedings; however, where an foreign main proceeding exists prior to a foreign non-main proceeding, the Court may refuse to grant urgent interim relief where the granting of such relief might interfere with the conduct of the existing foreign main proceeding – although that is not so in this case given there are no concurrent proceedings.

Urgent interim relief may include freezing orders or disclosure orders, thereby reducing the risk of asset dissipation (for freezing orders) and allowing the representative to gather information (for disclosure orders) whilst recognition is sought.

Post-recognition relief is generally made in respect of more substantive actions, allowing the representative to take active steps in relation to the assets or liabilities of the incapacitated entity in the enacting State.

A primary point of recognition is that the foreign representative can now in the enacting State take action ordinarily available under the relevant laws of that State, as set out in Article 23. However, more tailored relief may also be available under Article 21, including, amongst other relief, the following:

- Staying commencement of actions against the debtor in the enacting State
- Suspense of rights in respect of property of the debtor
- Entrusting administration of the debtor's estate in the enacting State to the foreign representative (or another person seen as suitable by the Court)
- Other relief available under domestic insolvency laws in the enacting State

In addition, certain automatic relief is available under Article 20.

Restrictions and limitations in respect of post-recognition relief are provided for in Article 21. However, an important limitation is that domestic laws, treaties as well as common law principles (in common law jurisdictions) will take precedence to the Model Law and, in this regard, the restrictions and limitations applicable will always depend on the State where the recognition is being sought.

In the UK, which has implemented the Model Law, Courts have in various cases considered the interaction between the Model Law and existing common law and decisions have resulted in common-law limitations to post-recognition relief. In the UK, in *Rubin v Eurofinance SA*, the Supreme Court rejected recognition on the basis that recognition would have resulted in the creation of new common-law via a creation of a distinction between recognition of insolvency related judgments and non-insolvency related judgments, which distinction does not exist. Such a limitation could not have been predicted by the foreign representative by reference only to the Model Law, but could have been predicted by an analysis of the Model Law together with an analysis of existing English Law.

For full mark on this question, the answer should include the following:

1. **Adequate protection**: Pursuant to Article 22 of the Model Law any interim relief under Article 19 of the Model Law or any post-recognition relief under Article 21 of the Model Law require the court in State A to be satisfied that the interests of the creditors and the other interested persons, including the debtor, are adequately protected and any relief may be subject to conditions as the court considers appropriate.

2. **Public policy exception:** The court in State A should, based on Article 6 of the Model Law, also again verify that the relief application is not manifestly contrary to public policy of State A.

Question 3.4 [maximum 1 mark] 1

Briefly explain why a worldwide freezing order granted as pre-recognition interim relief ex article 19 MLCBI, is unlikely to continue post-recognition ex article 21 MLCBI?

Interim relief, such as a Worldwide Freezing Order (“WFO”), is there in part to ensure that assets do not dissipate whilst the foreign representative is seeking recognition and prevented from taking certain steps while they await a decision. However, Court’s when determining whether to grant relief such as freezing orders, Court’s must always weight the impact on the creditor (asset dissipation if a Freezing Order is not granted) against the possible impact on the creditor (e.g. impacts to its ability to properly carry on valid business etc.) Therefore, freezing orders are nearly always meant to be temporary by their nature and, once a foreign proceeding has been recognised, it would be expected that the foreign representatives is taking steps to secure assets its validly entitled to secure – which it should now be capable of doing given the granting of recognition – rather than relying on a ‘blanket’ freezer.

QUESTION 4 (fact-based application-type question) [15 marks in total] 9 marks

Read the following facts very carefully before answering the questions that follow.

(1) Background

The Commercial Bank for Business Corporation (the Bank) has operated since 1991. The Bank’s registered office is situated in Country A, which **has not** adopted the MLCBI. As of 13 August 2015, the Bank’s majority ultimate beneficial owner was Mr Z, who held approximately 95% of the Bank’s shares through various corporate entities (including some registered in England).

The Bank entered provisional administration on 17 September 2015 and liquidation on 17 December 2015. Investigations into the Bank have revealed that it appears to have been potentially involved in a multi-million dollar fraud resulting in monies being sent to many overseas companies, including entities incorporated and registered in England.

Proceedings were issued in the High Court of England and Wales (Chancery Division) against various defendants on 11 February 2021 (the English Proceedings).

An affidavit (the Affidavit) sets out a detailed summary of the legislation of Country A’s specific insolvency procedure for Banks. The procedure involves initial input from the National Bank (the NB) and at the time that the Bank entered liquidation, followed a number of stages:

Classification of the bank as troubled

The NB may classify a bank as “troubled” if it meets at least one of the criteria set down by article 75 of the Law of Country A on Banks and Banking Activity (LBBA) or for any of the reasons specified in its regulations.

Once declared “troubled”, the relevant bank has 180 days within which to bring its activities in line with the NB’s requirements. At the end of that period, the NB must either recognise the Bank as compliant, or must classify it as insolvent.

Classification of the bank as insolvent

The NB is obliged to classify a bank as insolvent if it meets the criteria set out in article 76 of the LBBA, which includes:

- (i) the bank’s regulatory capital amount or standard capital ratios have reduced to one third of the minimum level specified by law;
- (ii) within five consecutive working days, the bank has failed to meet 2% or more of its obligations to depositors or creditors; and
- (iii) the bank, having been declared as troubled, then fails to comply with an order or decision of the NB and / or a request by the NB to remedy violations of the banking law.

The NB has the ability to classify a bank as insolvent without necessarily needing to first go through the troubled stage. Article 77 of the LBBA accordingly provides that a bank can be liquidated by the NB directly, revoking its licence.

Provisional administration

The Deposit Guarantee Fund (DGF) is a governmental body of Country A tasked principally with providing deposit insurance to bank depositors in Country A. However, the Affidavit explained that the DGF is also responsible for the process of withdrawing insolvent banks from the market and winding down their operations via liquidation. Its powers include those related to early detection and intervention, and the power to act in a bank’s interim or provisional administration and its ultimate liquidation.

Pursuant to article 34 of the DGF Law, once a bank has been classified as insolvent, the DGF will begin the process of removing it from the market. This is often achieved with an initial period of provisional administration. During this period:

- (i) the DGF (acting via an authorised officer) begins the process of directly administering the bank’s affairs. Articles 35(5) and 36(1) of the DGF Law provide that during provisional administration, the DGF shall have full and exclusive rights to manage the bank and all powers of the bank’s management.
- (ii) Article 36(5) establishes a moratorium which prevents, *inter alia*: the claims of depositors or creditors being satisfied; execution or enforcement against the bank’s assets; encumbrances and restrictions being created over the bank’s property; and interest being charged.

Liquidation

Liquidation follows provisional administration. The DGF is obliged to commence liquidation proceedings against a bank on or before the next working day after the NB’s decision to revoke the bank’s licence.

Article 77 of the LBBA provides that the DGF automatically becomes liquidator of a bank on the date it receives confirmation of the NB's decision to revoke the bank's licence. At that point, the DGF acquires the full powers of a liquidator under the law of Country A.

When the bank enters liquidation, all powers of the bank's management and control bodies are terminated (as are the provisional administrators' powers if the bank is first in provisional administration); all banking activities are terminated; all money liabilities due to the bank are deemed to become due; and, among other things, the DGF alienates the bank's property and funds. Public encumbrances and restrictions on disposal of bank property are terminated and offsetting of counter-claims is prohibited.

As liquidator, the DGF has extensive powers, including the power to investigate the bank's history and bring claims against parties believed to have caused its downfall. Those powers include:

- (i) the power to exercise management powers and take over management of the property (including the money) of the bank;
- (ii) the power to compile a register of creditor claims and to seek to satisfy those claims;
- (iii) the power to take steps to find, identify and recover property belonging to the bank;
- (iv) the power to dismiss employees and withdraw from/terminate contracts;
- (v) the power to dispose of the bank's assets; and
- (vi) the power to exercise "such other powers as are necessary to complete the liquidation of a bank".

The DGF also has powers of sale, distribution and the power to bring claims for compensation against persons for harm inflicted on the insolvent bank.

However, article 48(3) of the DGF Law empowers the DGF to delegate its powers to an "authorised officer" or "authorised person". The "Fund's authorised person" is defined by article 2(1)(17) of the DGF Law as: "*an employee of the Fund, who on behalf of the Fund and within the powers provided for by this Law and / or delegated by the Fund, performs actions to ensure the bank's withdrawal from the market during provisional administration of the insolvent bank and/or bank liquidation*".

Article 35(1) of the DGF Law specifies that an authorised person, must have: "*...high professional and moral qualities, impeccable business reputation, complete higher education in the field of economics, finance or law...and professional experience necessary.*" An authorised person may not be a creditor of the relevant bank, have a criminal record, have any obligations to the relevant bank, or have any conflict of interest with the bank. Once appointed, the authorised officer is accountable to the DGF for their actions and may exercise the powers delegated to them by the DGF in pursuance of the bank's liquidation.

The DGF's independence is addressed at articles 3(3) and 3(7) of the DGF Law which confirm that it is an economically independent institution with separate balance sheet and accounts from the NB and that neither public authorities nor the NB have any right to interfere in the exercise of its functions and powers.

Article 37 establishes that the DGF (or its authorised person, insofar as such powers are delegated) has extensive powers, including powers to exercise managerial and supervisory

powers, to enter into contracts, to restrict or terminate the bank's transactions, and to file property and non-property claims with a court.

(2) The Bank's liquidation

The Bank was formally classified by the NB as "troubled" on 19 January 2015. The translated NB resolution records:

"The statistical reports-based analysis of the Bank's compliance with the banking law requirements has found that the Bank has been engaged in risky operations."

Those operations included:

- (i) a breach, for eight consecutive reporting periods, of the NB's minimum capital requirements;
- (ii) 10 months of loss-making activities;
- (iii) a reduction in its holding of highly liquid assets;
- (iv) a critically low balance of funds held with the NB; and
- (v) 48% of the Bank's liabilities being dependent on individuals and a significant increase in "adversely classified assets" which are understood to be loans, whose full repayment has become questionable.

Despite initially appearing to improve, by September 2015 the Bank's financial position had deteriorated further with increased losses, a further reduction in regulatory capital and numerous complaints to the NB. On 17 September 2015, the NB classified the Bank as insolvent pursuant to article 76 of the LBBA. On the same day, the DGF passed a resolution commencing the process of withdrawing the Bank from the market and appointing Ms C as interim administrator.

Three months later, on 17 December 2015, the NB formally revoked the Bank's banking licence and resolved that it be liquidated. The following day, the DGF initiated the liquidation procedure and appointed Ms C as the first of the DGF's authorised persons to whom powers of the liquidator were delegated. Ms C was replaced as authorised officer with effect from 17 August 2020 by Ms G.

Ms G's appointment was pursuant to a Decision of the Executive Board of the Directors of the DGF, No 1513 (Resolution 1513). Resolution 1513 notes that Ms G is a "leading bank liquidation professional". It delegates to her all liquidation powers in respect of the Bank set out in the DGF Law and in particular articles 37, 38, 47-52, 521 and 53 of the DGF Law, including the authority to sign all agreements related to the sale of the bank's assets in the manner prescribed by the DGF Law. Resolution 1513 expressly excludes from Ms G's authority the power to claim damages from a related party of the Bank, the power to make a claim against a non-banking financial institution that raised money as loans or deposits from individuals, and the power to arrange for the sale of the Bank's assets. Each of the excluded powers remains vested in the DGF as the Bank's formally appointed liquidator.

On 14 December 2020, the Bank's liquidation was extended to an indefinite date, described as arising when circumstances rendered the sale of the Bank's assets and satisfaction of creditor's claims, no longer possible.

On 7 September 2020, the DGF resolved to approve an amended list of creditors' claims totalling approximately USD 1.113 billion. The Affidavit states that the Bank's current, estimated deficiency exceeds USD 823 million.

QUESTION 4.1 [maximum 15 marks]

Prior to any determination made in the English Proceedings, Ms G, in her capacity as authorised officer of the Deposit Guarantee Fund (or DGF) of Country A in respect of the liquidation of the Commercial Bank for Business Corporation (the Bank), together with the DGF (the Applicants), applied for recognition of the liquidation of the Bank before the English court based on the Cross-Border Insolvency Regulations 2006 (CBIR), the English adopted version of the MLCBI.

Assuming you are the judge in the English court considering this recognition application, you are required to discuss:

- 4.1.1 whether the Bank's liquidation comprises a "foreign proceeding" within the meaning of article 2(a) of the MLCBI **[maximum 10 marks]**; and
- 4.1.2 whether the Applicants fall within the description of "foreign representatives" as defined by article 2(d) of the MLCBI **[maximum 5 marks]**.

While not all facts provided in the fact pattern for this question (Question 4) are immediately relevant for your answer, please do use, where appropriate, those relevant facts that directly support your answer.

For the purpose of this question, you may further assume that the Bank is **not excluded** from the scope of the MLCBI by article 1(2) of the MLCBI.

4.1.1

Article 2(a) provides that for a proceeding to be a "foreign proceeding" as defined, the following requirements must be met:

- Collective judicial or administrative proceeding:
 - Yes, the liquidation of the Bank clearly falls into this category and so this requirement is met, notwithstanding that the appointment did not occur by order of a Court (i.e. it was resolved by the DGF).
- In a foreign state
 - Yes, the facts clearly state the insolvency process takes place in a State foreign to the UK and so this requirement is met.
- Including an interim proceeding
 - This requirement would not be applicable given the Bank is in liquidation which could not be considered an interim proceeding. However, it is noted that the provisional administration is likely to be considered an interim proceeding, so the Bank would have met this requirement from at least 17 September 2015.
- Pursuant to a law relating to insolvency
 - Yes, on possibly two basis:

- The LBBA and DGF Law may meet the requirement given it contains provisions in respect of deemed insolvency of banks, although it is not necessarily clear from the facts alone.
 - Regardless of whether the LBBA/DGF Law classifies as a “law relating to insolvency” for the purpose of Article 2(a), the facts state that the Bank entered provisional administration which was followed by liquidation. For this to have occurred in the State, it must have occurred pursuant to some laws related to those proceedings which are insolvency proceedings by their nature, and therefore the liquidation of the Bank must meet this criterion.
- assets and affairs of the debtor are subject to control or supervision by a foreign court
 - The facts are not clear as to whether a foreign court has control or supervision of the insolvency process (and therefore the assets and affairs of the Bank). The DGF is unlikely to be considered a foreign court given its jurisdiction appears limited to only the DGF Act. However, it is common that Courts will have legislated control and supervision over an insolvency process, whether not it is commenced by Court Order, and in this regard the fact that the Bank is stated to be in liquidation means that it is likely that its assets and affairs are subject to jurisdiction of the court in Country A.
- Purpose of reorganisation or liquidation
 - The Bank’s liquidation meets this requirement, as is clear by the statement that on 14 December 2020, “*the Bank’s liquidation was extended to an indefinite date, described as arising when circumstances rendered the sale of the Bank’s assets and satisfaction of creditor’s claims, no longer possible*” – i.e. that the Bank will be liquidated, and the liquidation process finalised, when all assets have been realised to the full or partial satisfaction of creditors claims.

This answer should have included a much more detailed explanation along the following lines:
Recognition of the Bank’s liquidation under the CBIR

1. In order to be recognised, the Bank’s liquidation must meet the definition of “*foreign proceeding*” set out in article 2(a) of the MCBI.
2. Here reference can also be made to paragraphs 6.4.1 and 6.4.2 of the Guidance Text and in particular the *Agrokor* case discussed there.

“Collective proceeding”

3. UNCITRAL’s guide for judiciary, “The Model Law on Insolvency: The Judicial Perspective” (2013) explains the requirement for proceedings to be “*collective*”:

“The UNCITRAL Model Law was intended to apply only to particular types of insolvency proceedings. The Guide to Enactment and Interpretation indicates that the notion of a “collective” insolvency proceeding is based on the desirability of achieving a coordinated, global solution for all stakeholders of an insolvency proceeding. It is not intended that the Model Law be used merely as a collection device for a particular creditor or group of creditors who might have initiated a collection proceeding in another State, or as a tool for gathering up assets in a winding up or conservation proceeding that does not also include provision for addressing the claims of creditors. The Model Law may be an appropriate tool for certain kinds of actions that serve a regulatory purpose, such as receiverships for such publicly regulated entities as insurance companies or brokerage firms, provided the proceeding is collective as that term is used in the Model Law.”

4. The Guide to Enactment and Interpretation of the UNCITRAL Model Law (2014) explains that when:

“evaluating whether a given proceeding is *collective* for the purpose of the Model Law, a key consideration is whether substantially all of the assets and liabilities of the debtor are dealt with in the proceeding, subject to local priorities and statutory exceptions, and to local exclusions relating to the rights of secured creditors. A proceeding should not be considered to fail the test of collectivity purely because a class of creditors’ rights is unaffected by it.”

5. Based on the facts provided the understanding is that *all* of the Bank’s creditors are entitled to claim in the liquidation and that their claims are met from available assets, according to the statutory order of priorities. Consequently, the conclusion can be reached that the Bank’s liquidation is a “*collective proceeding*”.

“Judicial or administrative” and “subject to the control or supervision by a foreign court”

6. The collective proceeding, must be “*judicial or administrative*” where “*the assets and affairs of the debtor are subject to control or supervision by a foreign court*”.
7. The term “*foreign court*” is defined at article 2(e) of the MLCBI and means: “*a judicial or other authority competent to control or supervise a foreign proceeding*”.
8. The Guide to Enactment notes: “*87) A foreign proceeding that meets the requisites of article 2, subparagraph (a), should receive the same treatment irrespective of whether it has been commenced and supervised by a judicial body or an administrative body. Therefore, in order to obviate the need to refer to a foreign non-judicial authority whenever reference is made to a foreign court, the definition of “foreign court” in subparagraph (e) includes also non-judicial authorities.*”
9. In ***Re Sanko Steamship Co Ltd*** [2015] EWHC 1031 (Ch) Simon Barker QC, noted that a foreign proceeding may be recognised where the control or supervision of the proceeding is undertaken by a non-judicial administrative body.
10. The Guide to Enactment states: “*74) The Model Law specifies neither the level of control or supervision required to satisfy this aspect of the definition nor the time at which that control or supervision should arise. Although it is intended that the control or supervision required under subparagraph (a) should be formal in nature, it may be potential rather than actual. As noted in paragraph 71, a proceeding in which the debtor retains some measure of control over its assets, albeit under court supervision, such as a debtor-in-possession would satisfy this requirement. Control or supervision may be exercised not only directly by the court but also by an insolvency representative where, for example, the insolvency representative is subject to control or supervision by the court. Mere supervision of an insolvency representative by a licensing authority would not be sufficient.*”
11. In this case the DGF has control of all of the Bank’s assets and overall control of the liquidation.
12. The DGF’s independence is addressed at articles 3(3) and 3(7) of the DGF Law which confirm that it is an economically independent institution with separate balance sheet and accounts from the NB and that neither public authorities nor the NB have any right to interfere in the exercise of its functions and powers.
13. Article 37 establishes that the DGF (or its authorised person, insofar as such powers are delegated) has extensive powers, including powers to exercise managerial and supervisory powers, to enter into contracts, to restrict or terminate the bank’s transactions, and to file property and non-property claims with a court.
14. Taking these factors into account, the Bank’s liquidation is *administrative*. The assets and affairs of the Bank are subject to the control of the DGF, an official body which exercises

its powers in the liquidation free from intervention by government or the NB and which should be considered, for the purposes of the definition set out in article 2(e) of the MLCBI, as a “foreign court”.

“Pursuant to a law relating to insolvency”

15. The Guide to Enactment provides at paragraph 48:

“Acknowledging that different jurisdictions might have different notions of what falls within the term “insolvency proceedings”, the Model Law does not define the term “insolvency”. However, as used in the Model Law, the word “insolvency” refers to various types of collective proceedings commenced with respect to debtors that are in severe financial distress or insolvent.”

Further explanation is provided at paragraph 73:

“This formulation is used in the Model Law to acknowledge the fact that liquidation and reorganization might be conducted under law that is not labelled as insolvency law (e.g. company law), but which nevertheless deals with or addresses insolvency or severe financial distress. The purpose was to find a description that was sufficiently broad to encompass a range of insolvency rules irrespective of the type of statute or law in which they might be contained and irrespective of whether the law that contained the rules related exclusively to insolvency.”

16. Article 76 of the LBBA clearly set out Country A’s specific insolvency procedures for insolvent banks. The Bank’s liquidation was commenced pursuant to those provisions and in my judgment should be considered by this Court as being “pursuant to a law relating to insolvency”.

“In which proceeding the assets and affairs of the debtor are subject to control or supervision by a foreign court, for the purpose of reorganisation or liquidation”

17. Having determined that the DGF falls within the definition of “foreign court”, I am satisfied, that by virtue of the legislative provisions set out above, it has control of all of the Bank’s assets and affairs for the purposes of administering the Bank’s liquidation.

4.1.2

- person or body, including one appointed on an interim basis
 - Yes, both Ms G (person) and the DFG (Interim) meet this requirement. Note that it is always possibly to meet this requirement if appointment on an interim basis, for example the representative at the time of the provisional administration, although no application was made by the provisional administration.
- authorized in a foreign proceeding
 - Assuming the liquidation of the Bank meets the definition of foreign proceeding, as discussed above, then Ms G and the DGF as Applicants will meet this requirement, given they are authorised under the DGF Act.
- administer the reorganization or the liquidation of the debtor's assets or affairs
 - the DGF as principal will fall into this category, given its express power to manage the liquidation of the Bank
- or to act as a representative of the foreign proceeding

Ms G would fall into this category, as representative of the DGF. Whilst the restrictions set out in Resolution 1513 are noted, these don't impact Ms G's ability to manage the debtor's assets and affairs generally, and where there is a restriction those powers continue to be held by the DGF as principal and as joint applicant, and therefore are held by the Applicants as a collective.

This is inadequate. There are no explanation of the requirements and hardly any application of facts.

*** End of Assessment ***