



FORMATIVE ASSESSMENT: MODULE 1

INTRODUCTION TO INTERNATIONAL INSOLVENCY LAW

This is a **formative assessment** relating to **Module 1** and is designed to provide candidates on the Foundation Certificate course with some direction and guidance as to the form and content of assessments on the course as a whole. The submission of this assessment is **not compulsory** and the mark awarded will not count towards the final mark for Module 1 or the course as a whole. However, students are encouraged to submit this assessment as part of their orientation for the submission of the formal (summative) assessments for all the modules on the course.

The Marking Guide for this assessment will be made available on the web pages for Module 1 as well as the Course Administration page for this course after the submission date of 15 October 2022.

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.assessment1formative]**. An example would be something along the following lines: 202223-336.assessment1formative. **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. The final submission date for this assessment is **15 October 2022**. The assessment submission portal will close at **23:00 (11 pm) BST (GMT +1) on 15 October 2022**. No submissions can be made after the portal has closed and no further uploading of documents will be allowed, no matter the circumstances.
7. Prior to being populated with your answers, this assessment consists of **10 pages**.

ANSWER ALL THE QUESTIONS

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

It should be relatively easy to develop a single system to deal with cross-border insolvency since all jurisdictions have more or less the same local insolvency law rules.

- (a) This statement is true since all countries have implemented the UNCITRAL Model Law on Cross-Border Insolvency.
- (b) This statement is untrue since there are huge differences in both the approach and insolvency legislation of various jurisdictions.**
- (c) This statement is true since all systems have at least the same general insolvency concepts.
- (d) The statement is true since the historical roots of all insolvency systems are the same.

Question 1.2

The Statute of Ann, 1705 was a very important piece of legislation for the development of English insolvency law.

- (a) This statement is true since this Act introduced imprisonment of debt.
- (b) This statement is untrue because it dealt with the distributions of the proceeds derived from the proceeds of selling the assets of the estate.
- (c) This statement is true since it introduced the notion of discharge.**
- (d) This statement is true since it introduced fraudulent conveyances into English law.

Question 1.3

The purpose of the UNCITRAL Legislative Guide (2004) has direct application in all the member States of the UN.

- (a) This statement is true because UNCITRAL's model legislative guidelines apply automatically to all member States.
- (b) This statement is true because all member States supported its automatic implementation in their respective jurisdictions.
- (c) This statement is untrue because the Legislative Guide serves merely as soft law and contains best practice to be considered when countries revise their own insolvency legislation.
- (d) This statement is untrue since the Legislative Guide is only available for use by developing countries when reforming their own insolvency laws.

Question 1.4

Modern rescue proceedings have replaced liquidation as an insolvency procedure in most systems.

- (a) This statement is true since business rescue is important for socio-economic reasons.
- (b) This statement is true because liquidation is viewed as a medieval and outdated process.
- (c) This statement is untrue since there is still a need for both liquidation and rescue procedures in insolvency systems.
- (d) This statement is untrue since some systems have no formal rescue procedure.

Question 1.5

The principles and requirements for avoidable dispositions and executory contracts are the same in all jurisdictions - hence these do not pose problems in a cross-border insolvency matter.

- (a) The statement is untrue, the requirements and principles do differ and pose problems in a cross-border case.
- (b) This statement is untrue because the insolvency laws of the State where the original insolvency order is issued will apply to all the other States involved in the matter.

- (c) This statement is untrue since avoidable dispositions and executory contracts do not pose any problems in a cross-border case.
- (d) The statement is untrue since avoidable dispositions and executory contracts may be disregarded in a cross-border case.

Question 1.6

The domestic corporate insolvency statute of a country makes no mention of the possibility of a foreign element in a liquidation commenced locally. The country has ratified a regional treaty on insolvency proceedings that contain provisions on concurrent insolvency proceedings over the same debtor in a neighbouring treaty state.

In a local liquidation commenced under the domestic corporate insolvency statute, to what law can the local court refer in order to resolve an international law issue that has arisen because of concurrent insolvency proceedings in the neighbouring state?

- (a) Public International Law.
- (b) UNCITRAL Legislative Guide on Insolvency Law.
- (c) World Bank Principles for Effective Insolvency and Creditor Rights Systems.
- (d) Private International Law.

Question 1.7

Which one of the following documents mandates co-operation or communication between courts in concurrent insolvency proceedings on the same debtor, which are being conducted in different nation states?

- (a) ALI / III Global Guidelines Applicable to Court-to-Court Communication in Cross-Border Cases (2012).
- (b) EU Cross-Border Insolvency Court-to-Court Communications Guidelines (2014).
- (c) UNCITRAL Model Law on Cross-border Insolvency (1997).
- (d) JIN Guidelines for Communication and Cooperation between Courts in Cross-Border Insolvency Matters (2016).

Question 1.8

Latin and Middle America states have ratified various multilateral conventions and treaties that address international insolvency issues. While they promote unity of proceedings in the treaty states where a debtor has a single commercial domicile, they acknowledge the possibility of concurrent proceedings.

Which of the following conventions and treaties does **not** provide for judicial co-operation where there are surplus funds remaining in a proceeding in one treaty state and there are concurrent insolvency proceedings over the same debtor in another treaty state?

- (a) Montevideo Treaty on International Commercial Law (1889).
- (b) Montevideo Treaty on International Commercial Terrestrial Law (1940).
- (c) Montevideo Treaty on International Procedural Law (1940).
- (d) Havana Convention on Private International Law (1928).

Question 1.9

The Council Regulation on Insolvency Proceedings (European Insolvency Regulation) (2000), which applies in all European Union member states except Denmark, was reviewed after a decade's operation. An amended European Insolvency Regulation (EIR) Recast (2015) was adopted in 2015 and took effect in June 2017.

Which of the following aspects of international insolvency is **not** addressed in the EIR Recast?

- (a) Proceedings to restructure a debtor that is facing the likelihood of insolvency.
- (b) Definition of "centre of the debtor's main interests".
- (c) A centralised insolvency register of insolvency proceedings opened in member states.
- (d) Co-operation and co-ordination provisions applicable to corporate groups.

Question 1.10

An unsecured Creditor is owed monies by the Debtor for services it supplied locally. It has issued proceedings to recover the debt in the local Court. The Debtor has moved its registration and head office to the local country from its original place of incorporation in a foreign country. The Creditor is incorporated and has its head office in that foreign country. The contract to supply, which was created by exchange of emails sent between the head

offices, denominates the debt in the currency of the foreign country. The Debtor is being wound-up in the foreign country and the foreign liquidator seeks recognition and a stay in the local Court proceedings. What aspect is an international insolvency issue?

- (a) The local Court's jurisdiction over the Debtor.
- (b) The standing of the foreign Creditor to sue for its debt in the local Court.
- (c) The foreign liquidator's standing to request a stay of the local proceedings.
- (d) The fact that the debt owed to the Creditor is in a foreign currency.

Marks awarded: 7 out of 10

QUESTION 2 (direct questions) [10 marks]

Question 2.1 [maximum 2 marks]

Explain what the term "international insolvency law" means.

[As insolvency issues could transcend a single jurisdiction, the international insolvency law is a set of rules concerning substantive and procedural insolvency issues, which aims to harmonise differences, enhance cooperation and increase predictability of the applications of insolvency laws by various jurisdictions in concurrent insolvency proceedings.]

2

Question 2.2 [maximum 5 marks]

Differentiate between the concepts of universality and territoriality in cross-border insolvency.

[Universality (Universalism) allows only one insolvency proceeding, and it acknowledges that the insolvency law of one certain state shall extend jurisdiction beyond its territory.

Since such concept is extremely difficult to achieve in practice, an alternative concept is developed, i.e. modified universalism. Modified universalism allows opening of a main proceeding in one state as well as secondary proceedings in other states.

Territoriality (Territorialism) allows plurality of insolvency proceedings, and it acknowledges that insolvency proceedings may be opened in every jurisdiction where the debtor holds assets and such jurisdiction should be territorially limited.]

Elaboration is warranted. These theories involve two key aspects of private international law - recognition and effect as well as jurisdiction:

For example, with universalism, (1) the jurisdictional aspect requires all States to agree on the place for the one set of insolvency proceedings in respect of the debtor and, to be successful, (2) recognition and effect requires that other States recognise that one set insolvency proceedings and recognise it as having extraterritorial effect in their States.

3

Question 2.3 [maximum 3 marks]

Describe **three** recent examples of developments in the Middle East region to reform domestic insolvency laws or to address international insolvency Issues.

[The Gulf Cooperation Council countries have been working closely with the World Bank A joint initiative was launched for comparative survey of insolvency systems in Middle East and North Africa based on the World Bank's Principles. **what impact did this have on reforming domestic insolvency laws or addressing international insolvency Issues in the Middle East?**

United Arab Emirates, Saudi Arabia and Dubai have recently reformed their domestic insolvency laws. **More detail would have improved the mark awarded for this sub-question.**

Bahrain and Dubai have adopted the Model Law on Cross- Border Insolvency respectively in 2018 and 2019.]

2

Marks awarded 7 out of 10

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

Question 3.1 [maximum 5 marks]

Write a brief note on the differences regarding the objectives of insolvency for individuals and corporations.

[The insolvency for individuals aims for rehabilitation of a natural person, and thus it inevitably involves discharge of debt, while the insolvency of corporations only has this arrangement when it comes to corporate rescue (not in liquidation).

The insolvency for individuals aims to reduce the indebtedness of an honest but unfortunate debtor, while in the case of insolvency of corporation, management who abused rights or committed negligence causing or further deteriorating the insolvency state will be held liable.

The insolvency for individual has the notion of exempt or excluded assets so that the debtor may have sufficient resource to sustain him or herself.

The insolvency for individuals normally requires a statutory repayment plan within a statutory proceeding, while the insolvency for corporations has more flexibility in this regard, i.e., a restructuring/rescue plan may be approved by court within a formal insolvency proceeding or the debtor may work out a contractual agreement with creditors by themselves.

In some legal systems, insolvency is only applicable for corporations (and other forms of entities), while a natural person may not apply for bankruptcy.]

There is some scope to elaborate but this is answered well.

5

Question 3.2 [maximum 5 marks]

Write a brief note on the difficulties that may be encountered when dealing with insolvency law in a cross-border context relating to pertinent differences in the relevant systems.

["Insolvency" is not uniformly defined in the insolvency laws of different states.

Terminology pertaining to the insolvency proceedings varies amongst the insolvency laws of different states.

Different states have their own domestic legal systems which may impact the rights and obligations of creditors and debtors in insolvency and cause conflicts.

It could be difficult to determine which state shall govern the insolvency proceedings.

After determining the forum of the proceedings, it could be difficult to predict the international effect of such opening of proceedings.]

Further detail would be beneficial. For example, consideration of Westbrook's 9 key issues.
2.5

Question 3.3 [maximum 5 marks]

What multilateral steps have been taken in the 21st century to promote harmonisation of domestic insolvency laws? In your opinion, how much impact are these likely to have in addressing international insolvency issues? Include reasons for your opinion.

[UNCITRAL Legislative Guide on Insolvency Law, The World Bank Principles for Effective Insolvency and Creditor/Debtor Regimes, etc.

In my understanding, these efforts will continuously heighten homogeneity of the insolvency laws of different states, especially the evolution of insolvency laws in developing countries. There are two major reasons: 1) Member states are gradually domesticating these “soft laws” via revision of their current domestic insolvency laws; and 2) Developing countries are willing to adapt to the World bank principles so as to receive favourable loan support.

This answer displays a satisfactory understanding of the issues. To improve your responses, ensure they are commensurate with the mark allocation.

3

Marks awarded 10.5 out of 15

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

Nadir Pty Ltd (Nadir) is a company registered in Utopia. Originally it was incorporated in the neighbouring country of Erewhon before moving its registration and head office to Utopia one month ago. Apex Pty Ltd (Apex) is incorporated and has its head office in Erewhon. Apex and Nadir enter into a contract by exchange of emails between their head offices for Apex to supply goods to Nadir in Utopia. Nadir has failed to pay for the goods which have been delivered in accordance with the contract. Apex issues court proceedings against Nadir in Utopia for monies owing for the goods sold and delivered.

Meanwhile, Nadir also owes monies to creditors in Erewhon. One Erewhon creditor obtains a court winding-up order against Nadir in Erewhon and a liquidator is also appointed by that court.

If you require additional information to answer the questions that follow, briefly state what information it is you require and why it is relevant.

Question 4.1 [maximum 5 marks]

Assume the UNCITRAL Model Law on Cross-border Insolvency has been adopted by Utopia without modification, except as required to domesticate it. For example, the Cross-border Insolvency Act of Utopia names its local laws relating to insolvency and its competent court under the Act. The Erewhon liquidator’s investigations detect that Apex is suing Nadir in Utopia. The liquidator would like to stop Apex court action against Nadir in Utopia. Advise the Erewhon liquidator on the potential relevance of the Cross-border Insolvency Act of Utopia.

[UNCITRAL Model Law on Cross-border Insolvency (MLCBI) proposed that all member states shall have uniform recognition laws which accept concurrent proceedings and encourage primary proceeding with supportive auxiliary proceedings.

More specifically, according to Art. 15, Para. 1 of MLCBI, Erewhon's liquidator, as a foreign representative, may apply to Utopia's court for recognition of the winding-up proceedings in Erewhon. As Nadir has altered its registered office to Utopia, according to Art. 16, Para 3, Utopia shall be deemed as Nadir's centre of main interests. Therefore, according to Art. 17, Para 2, Subpara(b), Art. 2, Subpara (f) of MLCBI, the winding-up proceedings in Erewhon shall be recognized as a foreign non-main proceeding. After the recognition of the winding-up proceedings, according to Art. 21 of MLCBI, at the request of the liquidator, Utopia court may stay Apex's court action, where necessary to protect the assets of the debtor or the interests of the creditors.]

5

Question 4.2 [maximum 2 marks]

Would it make any difference to your answer in question 4.1 in the following two alternative scenarios to Apex suing for its debt?

- (a) Apex had filed proceedings to wind-up Nadir, but the matter had not yet been heard.
- (b) Apex had obtained a court order to wind-up Nadir in Utopia prior to the Erewhon winding-up order.

[Assuming Apex filed proceedings in Utopia in both scenarios, and In scenario 1, since the proceedings in Nadir have not been opened and the representative has not been appointed, it will not impact Erewhon court's winding-up proceedings, and thus it will not affect the answer in question 4.1.

In scenario 2, according to Art. 28 of MLCBI, Erewhon court may open another winding-up proceeding only if the debtor has assets in Erewhon, and the effects of that proceeding shall be restricted to Nadir's assets located in Erewhon, because the wind-up proceeding in Utopia (Nadir's centre of main interests) has already opened and may and shall be recognized as a foreign main proceeding upon application for recognition.]

Refer to Article 29 on concurrent insolvency proceedings, under which the local proceedings in Utopia maintain pre-eminence over the foreign proceedings in Erewhon.

1

Question 4.3 [maximum 8 marks]

NB: This question is not related to Questions 4.1 and 4.2

A court has ordered the commencement of an insolvency proceeding against a corporate debtor in the State of its incorporation and head office. The company has operated business in a number of States and has assets (real property or interest in land, other tangible assets and intangible assets); creditors (including taxation / revenue authorities) and directors in several States.

Select a country for the company's incorporation and, based on the insolvency laws of the country you select and the brief facts provided, describe four key international insolvency issues facing the insolvency representative in this scenario. For each issue, what domestic

laws or international instruments apply to assist the insolvency representative address these four issues?

[Assuming the company is incorporated in mainland of People's Republic of China (PRC),

1. Recognition of the insolvency proceeding and foreign representative:

There is a general principle for recognition in Art.5 Para 2 of Company Bankruptcy Law (2006)(CBL): PRC Court shall recognize the application for foreign insolvency proceedings and representatives, pursuant to the international treaties the principle of comity, where the application will not violate the basic principles of the PRC law, threaten national sovereignty, security and public interest, and will not impair the lawful rights and interests of the creditors within the territory of the PRC.

Mainland has in recent year also entered into protocols with Hong Kong for more detailed substantive and procedural regulations. These protocols make the application for recognition of mainland insolvency proceedings by Hong Kong High Court (vice versa) more predictable and feasible.

2. Moratorium on creditor actions

According to Art. 19 of CBL: "Upon the acceptance of a bankruptcy application by the People's Court, the preservation measures over the relevant debtor's assets shall be discontinued and enforcement procedures shall be suspended."

3. Executory Contracts

According to Art. 18 of CBL: "Upon acceptance of a bankruptcy application by the People's Court, the administrator shall have the right to decide whether, a contract that was concluded between a debtor and another party prior to acceptance of the bankruptcy application but is still pending completion by the parties, shall be continued or be rescinded; and the administrator shall give such notice of its decision to the other party. Where the administrator does not notify the other party to the contract within two months from the date of acceptance of the bankruptcy application, or does not reply within 30 days from the date of receipt of a reminder by the other party to the contract, the contract shall be deemed rescinded."

This is a satisfactory response. For an approach more closely applied to the facts, see the 'Model' Answer for four key international insolvency issues raised by the facts and facing the insolvency representative in this scenario.

6

Marks awarded 12 out of 15

*** End of Assessment ***

A good paper that correctly identifies many of the issues raised and satisfactorily substantiates several answers.

TOTAL MARKS AWARDED 36.5/50