



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 8 out of 10

QUESTION 2 (direct questions) [10 marks]

Question 2.1 [maximum 2 marks]

Explain what the term "international insolvency law" means.

"International insolvency law" means a body of rules that deals with international aspects of the insolvent situation of an individual or a corporation: choice of forum, choice of law, effects given to the proceeding opened.

The answer would be improved if it also included information in your own words to indicate your personal understanding of the explanation also.

1.5

Question 2.2 [maximum 5 marks]

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

Universality is a concept where there is one main insolvency proceeding that has effect in every States. There would be one jurisdiction competent to deal with the debtor's situation,

one law applicable to the proceeding and one insolvency practitioner appointed that could act everywhere.

On the other hand, territoriality concept is a theory where there could be concurrent insolvency proceedings for the same debtor in different States. Each forum would have jurisdiction for the proceeding it opened and use its national insolvency law.

There is scope to elaborate with respect to recognition and effect in that for example, with universalism, recognition and effect requires that other States recognise that one set insolvency proceedings (that all agreed is the appropriate jurisdiction) and recognise it as having extraterritorial effect in their States.

3.5

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.

- 1) Many Middle East countries reformed their domestic insolvency law such as Dubai in 2019, the United Arab Emirates in 2016 and 2019 or Saudi Arabia in 2018.
- 2) Also some Middle Eastern countries implemented provisions to address international insolvency issues such as Dubai and Bahrain, that has adopted UNCITRAL Model Law on Cross-Border Insolvency
- 3) International organisations and Middle Eastern countries also cooperate to monitor applications of international best practice in the region.

More detail would have improved the mark awarded for this sub-question.

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.

On the one hand, insolvency proceeding for individual aim to preserve the natural person form individual claims of its creditors. Proceedings are designed for a rehabilitation of the individual by a discharge of pre-commencement debts, also called "fresh start". Also, when dealing with an individual, some assets won't be included into the insolvency estate because they are considered vital for the debtor's life (for example its main residence).

On the other hand, insolvency proceeding for corporations aim to preserve the economic activity, employment and payment of debt. Proceeding for corporation usually have provisions regarding liabilities of directors. Modern insolvency systems tend to prevail rescue plan for the repayment of debt rather than liquidation. Finally, corporations are dissolved after being wound up whereas this is impossible for individuals.

This answer displays a satisfactory understanding of the issues. To improve your responses, ensure they are commensurate with the mark allocation – while Q 3.1 asks for a brief note, it is for 5 marks.

4

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.

When dealing with a cross-border insolvency case, there can be difficulties regarding first the different type of proceeding. In some States, out-of-court administrative proceeding exists whereas in other States insolvency proceeding are in-court proceeding, sometimes before a specialized jurisdiction. Moreover, there can be difficulties when it comes to the recognition and enforcement of the decision that opened the insolvency proceeding. In some States, a foreign judicial decision must undertake exequatur proceeding, whereas in the EU States thanks to the EIR Recast of 2015, there is an automatic recognition of judgements and enforcement of its effect in other EU Member States. The last main difficulty is about the effect of the insolvency proceeding in a different state. In some legal system, the insolvency representative becomes the legal representative of the debtor instead of its directors, whereas as in some legal system the debtor is a debtor in possession.

Further detail would be beneficial. For example, consideration of Westbrook's 9 key issues.
3.5

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.

Since the beginning of the 21st century, many multilateral organisations, such as the UN with UNCITRAL, or the World Bank published some texts that legislators around the world can rely on when reforming their domestic insolvency law. These texts drafted by multilateral organisation promoted the same basic principles such as. One of the main example is UNCITRAL Legislative Guide on Insolvency law or the World Bank Principles for Effective Insolvency and Creditor/Debtor Regimes.

Moreover, there are regional initiatives to harmonize domestic insolvency law such as the EU Directive of 2019 on Restructuring and Insolvency.

All these initiatives will wave some barriers in international insolvency cases. Indeed, most of the difficulties are encountered because the different systems involved in the insolvency cases have different approach of insolvency and its aims. However, when texts are not compulsory such as UNCITRAL Legislative Guide, they have a smaller impact than mandatory regulation such as the EU Directive on Restructuring and Insolvency.

There is scope to consider political pressure, foreign investor pressure and/or loan conditions.

4

Marks awarded 11.5 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.**

Article 5, Article 15 and article 17 of the Cross Border Insolvency Act of Utopia give to a foreign insolvency representative the right to act before Utopian Courts to ask for the recognition and enforcement of Erewhon's court decision to wind up Nadir. The recognition will result in an automatic stay of all creditors actions for payment and consequently will stop Apex's action against Nadir in Utopia. The proceeding opened in Erewhon will be considered as a primary proceeding that
However, Utopian's court will have to check if Erewhon's court was the competent court to open the insolvency proceeding of Nadir, since it's a corporation that is incorporated in Utopia.

There is some scope to elaborate

4

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.

Alternative a) wouldn't change the fact that the liquidator appointed by Erewhon's court could act before Utopian tribunal to ask for recognition of opening of wind-up.

Alternative b) would mean that the Erewhon's liquidation proceeding will be a secondary proceeding since the COMI of Nadir is in Utopia.

Apply the MLCBI provisions on concurrent insolvency proceedings (see Article 29)

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?**

The corporate debtor is incorporated and has its head office in France.

The first international insolvency issue that could face the insolvency representative is the recognition of the French Tribunal order of commencement of insolvency proceeding in the foreign States where the debtor conducted its business. If these States are also EU Member States then the EU Regulation of 2015 will apply. This Regulation provides for an automatic recognition and enforcement of other EU Member States commencement decision. And if the debtor conducted its business outside the EU, then the insolvency representative will have to look if there is a bilateral convention on recognition and enforcement or look at Private International Law of each foreign States where the debtor would have assets or creditors.

The second international insolvency issue would be to collect all the assets of the debtor around the world and prevent them from being seized by creditors. The insolvency representative must then be able to administrate the estate which can be difficult if assets are split in different States all around the world. Under the EU Regulation of 2015, it is possible to open a secondary proceeding in the Member States where an establishment of the debtor is located. Sometimes a secondary proceeding will be more efficient to deal with local particularities with a local proceeding. The EU Regulation provides for coordination between primary and secondary proceedings and cooperation between jurisdictions and insolvency representatives.

The third international insolvency issue is about identifying creditors claims and make them participate to the proceeding whether it's in a creditors committee or a class of affected parties.

The fourth issue would be about execution of contracts that the debtor entered into before the commencement of insolvency proceeding. Under French Law, the insolvency representative has the right, under certain conditions, to terminate some contract that are not essential to the insolvency proceeding and the restructuring of the business. These decisions must be recognized by foreign contracting party.

For another approach that is 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 11 out of 15

* End of Assessment *

A very good paper that generally addresses the questions asked and substantiates its answers.

TOTAL MARKS AWARDED 37.5/50