INSOL INTERNATIONAL

FOUNDATION CERTIFICATE

IN INTERNATIONAL INSOLVENCY LAW

SUMMATIVE (FORMAL) ASSESSMENT: MODULE 1

(INTRODUCTION TO INTERNATIONAL INSOLVENCY LAW)

This is the summative (or formal) assessment for Module 1 ***of this course and is compulsory for all registered candidates on the Foundation Certificate. The mark awarded for this assessment will determine your final mark for Module 1. In order to pass this module you need to obtain a mark of 50% or more for this assessment.***

INSTRUCTIONS FOR COMPLETION AND SUBMISSION OF ASSESSMENT

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

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

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

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

4. ***You must save this document using the following format:*** [studentID.assessment1summative]***. An example would be something along the following lines: 202223-363.assessment1summative.*** 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 ID 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 November 2022***. The assessment submission portal will close at*** 23:00 (11 pm) GMT on 15 November 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

Civil Law and English (Common) Law countries have the same historical roots. Select from the following the best response ***to this statement.***

(a) This statement is untrue because English Insolvency Law developed from Roman law principles, and Civil Law Systems were based on the statute of Marlborough of 1267.

(b) This statement is untrue since Civil Law developed from early Roman law principles relating to debt recovery and English Insolvency Law developed via legislation, especially from the 16th century onwards.

(c) This statement is true since, on a principle basis, the developments of insolvency law as a system is the same in all systems.

(d) The statement is true since both systems developed from a pro debtor approach towards the notion of over-indebtedness.

Question 1.2

Both Civil Law and English Law systems in general allowed for a rather liberal discharge of debt for over-indebted debtors right from the inception of these systems. Select from the following the best response ***to this statement.***

(a) This statement is untrue since in both systems the notion of discharge only developed at a later stage.

(b) This statement is true since in both systems insolvency and rehabilitation procedures developed with discharge as a way of departure.

(c) This statement is untrue since discharge of debt never became part of any of these systems.

(d) This statement is true since creditors in both systems had an accommodative approach towards over-indebted debtors.

Question 1.3

England and America each have their own single unified piece of insolvency legislation which apply to both personal and corporate insolvency. Select from the following the best response to this statement.

(a) This statement is true since England has the unified 1986 Insolvency Act and the USA has the 1978 Bankruptcy Code. Both Acts cover personal and corporate insolvency.

(b) This statement is untrue since in England the Insolvency Act 1986 deals only with personal insolvency.

(c) This statement is untrue because the USA has separate Acts dealing with corporate liquidation and rescue.

(d) The statement is true since in England its companies' legislation deals with corporate insolvency and rescue.

Question 1.4

There are no good reasons to distinguish between insolvency rules pertaining to individuals (consumers, natural person debtors, also referred to as personal insolvency) and those insolvency rules applying to corporations or companies since in both instances the applicable insolvency rules are intrinsically collective in nature. Select from the following the best response to this statement.

(a) The statement is true since global insolvency law systems provide exactly the same rules to cover all aspects of insolvency in both instances, ie personal insolvency and corporate insolvency.

(b) The statement is untrue since there are pertinent differences in the treatment of certain aspects in insolvency of an individual and that of a company, like the fact that individuals are not "dissolved' after their estate assets have been liquidated as is the case once the assets of a company have been liquidated and it is finally wound up.

(c) The statement is untrue since insolvency law rules are not collective in nature.

(d) The statement is true since insolvent companies usually survive their liquidation and may continue to conduct business after the debt has been discharged through the liquidation process.

Question 1.5

All countries have one and the same set of rules to apply in the case of recognition of a foreign insolvency order. Select from the following the best response to this statement.

(a) The statement is untrue since the systems differ and some countries have no formal cross-border insolvency rules in place at all.

(b) This statement is true because all member states of the UN have adopted the UNCITRAL Model Law on Cross-Border Insolvency.

(c) This statement is true because the UNCITRAL Model Law on Cross-Border Insolvency applies directly to all UN member States.

(d) This statement is true since the International Court of Justice has a set of global cross-border insolvency principles that apply globally.

Question 1.6

The domestic corporate insolvency laws of a particular country make no mention of the possibility of a foreign element in a liquidation commenced locally. There is also no locally applicable treaty or convention on insolvency proceedings in place.

In a local liquidation commenced in that country, to what other area of domestic law can the local court refer in order to resolve an insolvency related international law issue that has arisen because of concurrent insolvency proceedings over the same debtor in a different country?

(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

Private international law raises questions of the conclusive effect of a foreign judgment and the enforcement of a foreign judgment. A German court has issued a judgment in a German insolvency which has a connection with England. The foreign

insolvency office holder seeks recognition and enforcement in an English court of the insolvency order made in the German insolvency proceedings.

Which of the following statements, concerning the request for recognition and enforcement in England, is true?

(a) The English Court hearing the request for recognition and enforcement may apply the EU Recast Insolvency Regulation (2015).

(b) It is relevant factor for the English Court hearing the matter to consider whether Germany has adopted the UNCITRAL Model Law on Cross-border Insolvency 1997, or not.

(c) The English Court will be able to consider the request based on its 2006 Insolvency Regulations (the adopted UNCITRAL Model Law on Cross-Border Insolvency) and / or common law principles.

(d) The German order will be automatically recognised in England due to a cross-border insolvency treaty between England and Germany.

Question 1.8

Which of the following best describes international insolvency law?

(a) It is public international law governing insolvency law between States.

(b) It is private international law governing insolvency law between States.

(c) It may involve aspects of both public international law and private international law.

(d) It involves a simple classification within either public international law or private international law.

Question 1.9

To date, the most successful soft law approach to international insolvency law issues has been the Model Law on Cross-border Insolvency. Select from the following the best response to this statement.

(a) This statement is untrue because not all States have adopted the Model Law on Cross-border Insolvency.

(b) This statement is untrue because of the requirement for reciprocity in relation to the Model Law on Cross-border Insolvency.

(c) This statement is true because the Model Law on Cross-border Insolvency creates regulations which binds each State and has been the most influential response to international insolvency law issues.

(d) This statement is true because the Model Law on Cross-border Insolvency has been adopted by numerous States and is gaining momentum as an influential response to international insolvency law issues.

Question 1.10

Latin American States have some of the most long-lasting multilateral agreements regarding international insolvency issues. Select from the following the best response ***to this statement.***

(a) This statement is untrue because the Bustamante Code was concluded in 1928, which was only a few years before the Nordic Convention of 1933.

(b) This statement is untrue because North America was not a party to these agreements.

(c) This statement is true because agreements such as the Escazú Agreement have been extremely long lasting.

(d) This statement is true because of agreements such as the Montevideo Treaties and Havana Convention on Private International Law.

Marks awarded 9 out of 10

QUESTION 2 (direct questions) [10 marks]

Question 2.1 [maximum 3 marks]

Briefly indicate the historical roots of the various insolvency law systems to be found in African jurisdictions.

With respect to not only basic legal system but also insolvency law systems, respective colonial power has still given impact on African countries. For example, an English law system affects Nigeria, Kenya, Botswana and Zambia, and countries in the Eastern part of Africa such as Tanzania. Elaboration is warranted re for example French historical law countries and mixed law countries. ***However, there are the introduction of new and modern legislation to many African countries. An example of this introduction is that Sub-Saharan Africa has established the Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA) or Organisation for the Harmonisation of Business Law in Africa (OHBLA) to reform or coordinate with the domestic laws of its member countries, including insolvency law systems. As a result, 1ll of the OHADA member states introduced the UNCITRAL Model Law on Cross-border insolvency.***

1.5

Question 2.2 [maximum 3 marks]

Indicate what important events and / or developments gave rise to some insolvency law reform in Eastern Asia and provide two examples of such reform initiatives.

1998 financial crisis in East Asia, especially Indonesia and Thailand, gave the impact on the reform of insolvency law. Especially, Thailand significantly reformed its bankruptcy laws. In addition, there is an introduction of new insolvency law in Singapore: Restructuring and Dissolution Act, coming into force on 30 July 2020. Additionally, Corporate Restructuring and Insolvency in Asia has been indicated as a recent Asian initiative, affecting many East Asian countries, including ASEAN, China, Hong Kong, Japan and South Korea.

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Question 2.3 [maximum 4 marks]

Briefly indicate the various initiatives undertaken to assist with the resolution of international insolvency issues between North America and Canada and the success or otherwise of these initiatives.

After Canada and US failed to reach an bilateral insolvency treaty in the 1970's, both countries has adopted Model Law and cooperation mechanisms, e.g., Protocols, as practical progress though there had been cooperation and coordination between them. In addition, the American Law Institute (ALI) took the initiative to make the improvement of the co-operation in international insolvencies across US, Canada and Mexico, i.e., NAFTA member States. As a result, the ALI Council and Members approved Principles of Cooperation among the NAFTA Countries in 2000.

There is scope to elaborate. While the question says 'briefly' it is for 4 marks. There was scope to discuss, for example, *Re Nortel Networks Corporation* [2016] ONCA 332; *In re Nortel Networks, Inc.*, 669 F.3d 128

2

Marks awarded 6.5 out of 10

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

Question 3.1 [maximum 5 marks]

It is said that one of the difficulties in designing a proper cross-border insolvency dispensation is the fact that domestic insolvency laws and approaches towards insolvency in various jurisdictions are not the same and in fact sometimes differ vastly. Discuss the possible historical reasons for the difference in approaches regarding the treatment of voidable dispositions, given the way such rules developed in English law and civil law jurisdictions respectively. In your answer you must provide a context or framework for the treatment of these rules in insolvency systems and indicate why these rules are important in insolvency.

As one of the functions of insolvency procedure is to collect all assets of a debtor and then distribute them to all creditors on a pro-rata basis. However, if a debtor makes preferential transactions with some creditors before the commencement of the insolvency proceeding, other creditors are treated unfairly. Likewise, if a debtors hides her/his assets to be distributed to creditors, they cannot receive proper benefits from the debtor's assets. Therefore, some transactions which cause damages against creditors should be voidable if this is justifiable under the insolvency collective mechanism. On the other hand, requirements to make debtor's transaction voidable under one jurisdiction may be different from under other jurisdictions. This difference might be caused by historical reasons of respective jurisdictions because what type of transactions to be justifiable or unjustifiable for insolvent debtors under insolvency proceedings depend on a policy decision, not logical conclusion. In fact, the basis of fraudulent conveyance law in civil law comes from actio Pauliana and that in English law comes from the Act of Elizabeth of 1570.

There is scope to elaborate. While the question says 'briefly' it is for 5 marks.

4

Question 3.2 [maximum 5 marks]

A Dutch commentator on international insolvency law defines international insolvency law as that part of the law that:

> ***"[i]s commonly described in international literature as a body of rules concerning certain insolvency proceedings or measures, which cannot be fully enforced, because the applicable law cannot be executed immediately and exclusively without consideration being given to the international aspect of a given case."***

However, the author concedes that this definition has limitations. Briefly discuss the reasons why the definition is perceived to have limitations.

The reason why this definition is limited is that it assumes the existence of domestic insolvency legal system, namely, if there is no such legal system under the certain jurisdiction, the definition lacks the assumption of "a body of rules concerning certain insolvency proceedings or measures". However, there are some situation that insolvency law is not equipped in a country. On the other hand, due to flexibility of mobility of people and goods across countries, it is necessary to have cooperation and coordination between different countries in terms of the treatment of insolvency situation. Therefore, although the definition of international insolvency law cover such issue between different countries, it does not consider the ill-equipped insolvency legal system, resulting in the limitation as definition.

There is scope to elaborate. While the question says 'briefly' it is for 5 marks.

4

Question 3.3 [maximum 5 marks]

Briefly discuss treaties or conventions as a source for cross-border insolvency law. In your answer you should also indicate if these are viewed as a successful way in establishing such rules by providing examples in this regard.

Treaties and conventions are regarded as classic public instruments for cross-border insolvency law. Treaties and conventions affect the domestic law by the ratification of the countries to be required. As a result, such international insolvency law as "hard law" comes into enforceable. However, the "hard law" as a source for international insolvency law becomes unsuccessful, except for some rare case like the Nordic Convention (1933) across the Scandinavian countries. For example, only 3 European countries has ratified the European Convention on Certain International Aspects of Bankruptcy (ETS No. 136) for common and democratic mechanisms. In European counties, the European Insolvency Regulation (EIR) (2000) as amended, not convention, has been successful as multinational insolvency development. In addition, "soft law" solutions are more successful as a source of international insolvency law than "hard law". Model Law on Cross-border Insolvency is exemplified as the most successful "soft law", adopted by various counties with or without amendments.
There is scope to elaborate. While the question says 'briefly' it is for 5 marks.

3.5
Marks awarded 11.5 out of 15

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

Flor Prim Pty Ltd (FPPL) is a company incorporated with its head office and significant operations in Encanto as well as being registered as a foreign company in Asgard, where it also carries on business. FPPL therefore carries on business in more than one State. Lobo Lending Ltd (Lobo) is incorporated and has its head office in Asgard.

FPPL is managing to meet its debts as they fall due in Encanto. However, due to various staffing issues combined with market turndown in Asgard, FPPL is struggling financially in Asgard. FPPL has fallen behind with payments due and owing to Lobo. FPPL's CEO approaches Lobo to discuss possible informal payment arrangements.

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

Question 4.1 [Maximum 5 marks]

What are the main differences between "formal" insolvency proceedings and "informal" insolvency arrangements? What key advantages and disadvantages should Lobo consider regarding any informal out-of-court workout arrangement it could enter with FPPL, compared with its formal debt recovery options?

There are four (4) big differences between in-court insolvency proceeding and out-of-court proceeding: moratorium, cost, publicity and binding. Although formal insolvency proceeding typically has a moratorium system and a rescue plan under the in-court proceeding is binding to dissenting creditors, the commencement of the insolvency procedure is released to the public and the cost to undertake it is more expensive than out-of-court proceeding. On the other hand, the cost to undertake informal insolvency proceeding is cheaper and it is undisclosed to the public, protecting a debtor's business value based on its financial reputation. However, it has disadvantage that a debtor cannot prevent a creditor from taking the legal proceeding against the debtor and from dissenting the rehabilitation plan.
In this case, Lobo as creditor of FPPL should consider how to collect its debt against FPPL. Therefore, "formal" insolvency proceeding which is costly and shows FPPL's financial difficulty to the public may cause the damage against FPPL and the risk not to collect its debt. On the other hand, Lobo should note that, if other creditors take some legal action against FPPL, it may give negative impact on the negotiation between Lobo and FPPL.

There is some scope to elaborate.
Also, it is made more complex by FPPL carrying on business in more than one State because it is more complicated and costly to monitor the other creditors.

4

Question 4.2 [Maximum 5 marks]

Assume that instead of the scenario described above, Lobo obtained a formal court order against FPPL for a court-supervised insolvency proceeding in Asgard. The Asgardian insolvency representative then discovered there was already a concurrent insolvency proceeding commenced against FPPL in Encanto. Detail difficulties that may arise for the insolvency representative pertaining to co-operation and co-ordination and the international insolvency instruments that have been developed to assist with respect to those difficulties. In your answer make sure to comment as to whether the development of these international insolvency instruments is important and why, or why not.

At first, the Asgardian insolvency representative may face which insolvency proceedings take a initiative role for FPPL. If there is no co-operation nor co-ordination between Asgard and Encanto and each of the insolvency proceedings is independent, there is a risk that some creditors, especially foreign creditors, against FPPL are unfairly treated. Also, it is too difficult to predict which legislation will be applied to questions related to insolvency proceedings for the debtor, e.g., security rights and priority payments. Therefore, the development of international insolvency law is very important. If UNCITRAL model law is introduced in Asgard and Encanto, such law is likely to require their relevant authorities for insolvency proceedings to make cooperation and direct communication between them. In addition, to avoid the

conflicts between their concurrent insolvency proceedings, coordination is likely to be required by analysing which county is a centre of main interests for a debtor.

It is good that you raise the MLCBI. Reference to article 27 is warranted. Reference to additional international insolvency instruments is also warranted.

3

Question 4.3 [Maximum 5 marks]

Assume that instead of the hypothetical facts mentioned above, FPPL is an incorporated company with offices in the UK, and throughout Europe and other non-European countries. Lobo is its major creditor and is incorporated in a country in Europe. An insolvency proceeding against FFPL was opened in the UK by a minor creditor on 30 June 2022. A month later, Lobo was considering also opening proceedings in another country in Europe. Discuss whether the European Insolvency Regulation Recast would apply with respect to the UK commenced insolvency proceedings, and the consequences of same. In answering this question set out what further information, if any, you might need.

Due to BREXIT, there is no application of the European Insolvency Regulation Recast to post-11pm 31 December 2020 proceedings in the UK. On the other hand, in the case that the main insolvency proceedings are commences before 11pm on 31 December 2020, the European Insolvency Regulation Recast applies. As an insolvency proceeding against FFPL was commenced in the UK on 30 June 2022, it seems that the European Insolvency Regulation Recast would apply to such proceeding. Do you mean would not? ***However, we do not have any information about a centre of main interest ("COMI"), i.e., whether this insolvency proceeding in the UK is main or not. Therefore, we need the analysis of COMI for the application of the European Insolvency Regulation Recast to the UK insolvency proceeding against FFPL.***
It would also be beneficial to consider the MLCBI.

1.5

Marks awarded 8.5 out of 15

*** End of Assessment ***

TOTAL MARKS 35.5/50
A good paper that correctly identifies many of the issues raised and satisfactorily substantiates several answers.