



SUMMATIVE (FORMAL) ASSESSMENT: MODULE 3A

THE INSOLVENCY SYSTEM OF THE UNITED STATES

This is the summative (formal) assessment ***for*** Module 3A ***of this course and is compulsory for all candidates who*** selected this module as one of their compulsory modules from Module 3. ***Please read instruction 6.1 on the next page very carefully.***

If you selected this module as one of your elective modules, ***please read instruction 6.2 on the next page very carefully.***

The mark awarded for this assessment will determine your final mark for Module 3A. ***In order to pass this module, you need to obtain a mark of 50% or more for this assessment.***

INSTRUCTIONS FOR COMPLETION AND SUBMISSION OF ASSESSMENT

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

1. **You must use this document for the answering of the assessment for this module. The answers to each question must be completed using this document with the answers populated under each question.**
2. **All assessments must be submitted electronically in MS Word format, using a standard A4 size page and a 11-point Arial font. This document has been set up with these parameters - please do not change the document settings in any way. DO NOT submit your assessment in PDF format as it will be returned to you unmarked.**
3. **No limit has been set for the length of your answers to the questions. However, please be guided by the mark allocation for each question. More often than not, one fact / statement will earn one mark (unless it is obvious from the question that this is not the case).**
4. **You must save this document using the following format: [studentID.assessment3A]. An example would be something along the following lines: 202223-336.assessment3A. Please also include the filename as a footer to each page of the assessment (this has been pre-populated for you, merely replace the words "student number" with the student number allocated to you). Do not include your name or any other identifying words in your file name. Assessments that do not comply with this instruction will be returned to candidates unmarked.**
5. **Before you will be allowed to upload / submit your assessment via the portal on the Foundation Certificate web pages, you will be required to confirm / certify that you are the person who completed the assessment and that the work submitted is your own, original work. Please see the part of the Course Handbook that deals with plagiarism and dishonesty in the submission of assessments. Please note that copying and pasting from the Guidance Text into your answer is prohibited and constitutes plagiarism. You must write the answers to the questions in your own words.**
- 6.1 **If you selected Module 3A as one of your compulsory modules (see the e-mail that was sent to you when your place on the course was confirmed), the final time and date for the submission of this assessment is 23:00 (11 pm) GMT on 1 March 2023. The assessment submission portal will close at 23:00 (11 pm) GMT on 1 March 2023. No submissions can be made after the portal has closed and no further uploading of documents will be allowed, no matter the circumstances.**
- 6.2 **If you selected Module 3A as one of your elective modules (see the e-mail that was sent to you when your place on the course was confirmed), you have a choice as to when you may submit this assessment. You may either submit the assessment by 23:00 (11 pm) GMT on 1 March 2023 or by 23:00 (11 pm) BST (GMT +1) on 31 July 2023. If you elect to submit by 1 March 2023, you may not**

submit the assessment again by 31 July 2023 (for example, in order to achieve a higher mark).

7. Prior to being populated with your answers, this assessment consists of 9 pages.

ANSWER ALL THE QUESTIONS

Commented [la1]: Total marks 18.75/50

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

Commented [la2]: Total marks 6/10

Questions 1.1. - 1.10. are multiple-choice questions designed to assess your ability to think critically about the subject. Please read each question carefully before reading the answer options. Be aware that some questions may seem to have more than one right answer, but you are to look for the one that makes the most sense and is the most correct. When you have a clear idea of the question, find your answer and **mark your selection on the answer sheet by highlighting the relevant paragraph in yellow**. Select only ONE answer. Candidates who select more than one answer will receive no mark for that specific question.

Question 1.1

Commented [la3]: Correct, 1 mark

Which of the following entities does not satisfy the minimum presence requirement to be a debtor under any chapter of the Bankruptcy Code?

- (a) A foreign domiciled company that pays a US attorney a retainer.
- (b) A company with several US bank accounts, but no physical presence in the United States.
- (c) A company with US patents, but no physical presence in the United States.
- (d) All of the above satisfy the minimum requirement for presence in the United States.**
- (e) None of the above satisfy the minimum requirement for presence in the United States.

Question 1.2

Commented [la4]: Correct, 1 mark

ABC Corp is an industrial manufacturing company that is filing for bankruptcy. Which of the following could not be considered a party in interest?

- (a) A neighboring landowner to ABC Corp's manufacturing plant.
- (b) An environmental advocacy group that opposes ABC Corp's operations.**
- (c) The landlord of ABC Corp's corporate office.

- (d) *People who live several miles downstream from ABC Corp's manufacturing plant and have been exposed to the plant's toxic waste.*
- (e) *The US Internal Revenue Service.*

Question 1.3

Commented [la5]: Correct, 1 mark

Which of the following contracts to which ABC Corp is a party is executory and may be assigned without counterparty consent?

- (a) A lease on a manufacturing plant that contains a provision that requires landlord approval of any assignment.**
- (b) *An employment contract between ABC Corp and a former employee, requiring the company to provide health insurance through the end of the current year.*
- (c) *A 10-year software licensing agreement with XYZ Corp that is three years into performance.*
- (d) *A lease on office space that ended the prior year, but for which ABC Corp still owes past rent.*
- (e) *None of the above are executory and may be assigned without counterparty consent.*

Question 1.4

Commented [la6]: Correct, 1 mark

Which of the following conditions must be true about a reorganization plan for a court to confirm it under Chapter 11 proceedings?

- (a) *Have a possibility of success, even if it relies on speculative or improbable events to be capable of execution.*
- (b) The plan is not likely to be followed by liquidation.**
- (c) *All impaired classes must accept the plan.*
- (d) *All of the above.*
- (e) *None of the above.*

Question 1.5

Commented [la7]: Incorrect, the correct response is (e)

Which of the following about cramdowns, is false?

(a) The plan of reorganization must be fair and equitable to all impaired classes.

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

(c) Class definition is often a battleground when a debtor tries to cramdown classes.

(d) Dissenting creditors are permitted to challenge the classification of a creditor supporting the cramdown.

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

Question 1.6

Commented [la8]: Incorrect, the correct response is (c)

Which of the following about 363 sales is false?

(a) A good faith purchaser at a 363 sale may retain the property notwithstanding a subsequent reversal of court approval for the sale on appeal.

(b) The debtor in possession must establish that the transaction is in the best interests of the estate as a whole.

(c) In chapter 15 proceedings, a foreign court's approval alone suffices for a 363 sale.

(d) Debtors must carry out a robust marketing process for the sale.

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

Question 1.7

Commented [la9]: Incorrect, the correct response is (d).

Which of the following is true of both an actual fraudulent conveyance and a constructive fraudulent conveyance?

(a) The debtor must have had an actual intent to hinder, delay, or defraud any entity to which the debtor was or became indebted.

(b) Both require at least circumstantial evidence of the fraudulent intent.

(c) The debtor must have been insolvent at the time of transaction.

(d) In addition to provisions in the Bankruptcy Code, the debtor or the trustee may invoke applicable state or foreign fraudulent conveyance laws.

(e) All of the above are true.

Question 1.8

Commented [la10]: Correct, 1 mark

When does an automatic stay come into effect?

- (a) Immediately on the filing of any plenary petition.**
- (b) *On the filing of a voluntary petition but not on the filing of an involuntary petition.*
- (c) *Once the court reviews the petition and grants the stay.*
- (d) *Once the petitioner announces their intention to file for bankruptcy publicly.*
- (e) *Once a plan of reorganization is confirmed.*

Question 1.9

Commented [la11]: Incorrect, the correct response is (c)

Which of the following regarding substantive consolidation is true?

- (a) *It respects the boundaries of corporate separateness.*
- (b) It is the treatment of two or more creditors as a single creditor to simplify the claims process.**
- (c) *If a creditor can show it extended credit on the basis of corporate separateness, it has a valid objection to substantive consolidation.*
- (d) *Substantive consolidation is commonly used to resolve bankruptcies of corporate groups.*
- (e) *Authority for substantive consolidation comes from the Bankruptcy Code.*

Question 1.10

Commented [la12]: Correct, 1 mark

Which of the following are relevant factors in determining a debtor's center of main interests (COMI) in the recognition stage of a Chapter 15 bankruptcy case?

- (a) *The location of the headquarters.*
- (b) *The location of primary assets.*
- (c) *The location of the majority of the affected creditors in the request for relief.*
- (d) *The jurisdiction whose law will apply to most disputes.*
- (e) All of the above.**

QUESTION 2 (direct questions) [10 marks]

Commented [la13]: Total marks 3/10

Question 2.1 [1 mark]

Commented [la14]: Total marks 1/1

What is setoff and why is it not permitted in many circumstances?

A set off is when a creditor has a claim against a debtor but also owes money to the debtor and tries to offset the two against each other. It is not permitted in many circumstances because it improves the position of the creditor in comparison to the other unsecured creditors who are not owed money by the Debtor.

Commented [la15]: Correct, 1/2 mark

Commented [la16]: Correct, 1/2 mark

Question 2.2 [2 marks]

Commented [la17]: Total marks 1/2

What rules should you review when preparing a filing for a bankruptcy court?

1. *Federal rules of Bankruptcy Procedure*
2. *Local rules of procedure for each Bankruptcy Court*

Commented [la18]: Correct, 1/2 mark, and also the Federal Rules of Civil Procedure

Commented [la19]: Correct, 1/2 mark, and also the judge's personal practices

Question 2.3 [2 marks]

Commented [la20]: Total marks 1/2

What does the absolute priority rule require and when can it be deviated from?

The absolute priority rule requires that certain employee expenses such as unpaid salaries and contributions to employee benefit plans in the 180 days before petition for bankruptcy are given administrative priority and can not receive any worse treatment under a plan of re-organisation unless they consent.

Commented [la21]: Partially correct, 1/2 mark, the absolute priority rule applies to all classes of creditors and provides that a given class must be paid in full before a junior class can receive anything

Commented [la22]: Correct, 1/2 mark, also note that consent to money going to junior creditors is only permissible in a chapter 11 plan, not in chapter 7

Question 2.4 [2 marks]

Commented [la23]: Total marks 0/2

What is a "priming lien" and what requirements must be met for such a lien to be granted to secure DIP financing?

[Type your answer here]

Question 2.5 [3 marks]

Commented [la24]: Total marks 0/2

What is a preference? What are the elements of a preference claim that need to be proved? Is a showing of fault, by either the debtor or creditor, required?

[Type your answer here]

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

Commented [la25]: Total marks 6.75/15

Question 3.1 [3 marks]

Describe the circumstances in which a bankruptcy court may enter a final order, who reviews appeals from bankruptcy court orders and how are non-final orders reviewed?

[Type your answer here]

Commented [la26]: Total marks 0/3

Question 3.2 [3 marks]

What provisions of the Bankruptcy Code automatically apply to the debtor's property within the territorial jurisdiction of the United States upon recognition of a foreign main proceeding? What relief may be granted on a discretionary basis for either foreign main or non-main proceedings?

[Type your answer here]

Commented [la27]: Total marks 0/3

Question 3.3 [4 marks]

What duties do directors owe to a Delaware corporation in the ordinary course of business? To whom are these duties owed when the corporation is potentially or actually insolvent? What rule protects directors from liability for errors of judgment?

Directors in a Delaware corporation owe a duty of care and a duty of loyalty in educated decision making to the corporation. The director's duties are owed to the corporation and the shareholders. The Judgment Rule protects directors from liability for errors of judgment by presuming that decisions were made in good faith.

Commented [la28]: Total marks 3.5/4

Commented [la29]: Correct, 1 mark

Commented [la30]: Correct, 1 mark

Commented [la31]: Partially correct, 1/2 mark, the duties remain owed to the shareholders and corporation even in the case of insolvency

Commented [la32]: Correct, 1 mark

Question 3.4 [5 marks]

List and describe the requirements that a creditor's claim must fulfill in order to qualify as a petitioning creditor in an involuntary proceeding.

In order to qualify as a petitioning creditor in an involuntary proceeding, the creditor's claim must meet the following requirements;

a) The claim must be a non-contingent debt.

This means the debt claimed must not be a future debt or a debt based on the occurrence of future happenings for example the default of guarantors.

b) The claim must not be disputed by the debtor as to liability or amount

This means that there should not dispute by the debtor to owing the amount claimed by the debtor or the liability for the claim in its entirety.

Commented [la33]: Total marks 3.25/5

Commented [la34]: Correct, 1 mark

Commented [la35]: Partially correct, 1/4 mark, a debt that is unmatured qualifies

Commented [la36]: Partially correct, 1/2 mark, specifically there must not be a bona fide or good faith dispute on a matter of law or fact

c) The claim must be **unsecured and under secured** and must be in the aggregate with all the other creditors in the amount of at least **USD16,750**.

Commented [la37]: Correct, 1 mark

Commented [la38]: Correct, 1/2 mark, also the creditor must allege that the debtor is not paying its debts as they come due or has had a custodian appointed

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

Commented [la39]: Total marks 3/15

Question 4.1 [5 marks]

Commented [la40]: Total marks 0/5

Speculation Inc is engaged in day-trading stocks from leased office space with two employees. It funds its trading through a margin loan from its broker, where the shares it purchases are held as collateral. For a while, Speculation Inc was very successful in trading, and the US Department of Justice (DOJ) has announced an investigation into whether its success was due to illegally trading on insider information. More recently, Speculation Inc has had serious trading losses, causing its broker to declare a default on the margin loan. It also has fallen behind on its rent, and been sued by a former employee alleging she was fired due to gender bias.

What would be the effect of a Chapter 11 petition being filed by Speculation Inc on each of the (i) DOJ investigation, (ii) margin loan default; (iii) delinquent lease and (iv) employment discrimination lawsuit?

[Type your answer here]

Question 4.2 [5 marks]

Commented [la41]: Total marks 3/5

Stella SA (Stella) is an international cosmetics company incorporated in France, with its headquarters in Paris. Stella's products are made in Italy and shipped to its retail stores in Europe (including England), Asia, and North America. Stella's funding comes from a bank loan and Eurobonds, both of which are governed by English law. Stella's retail sales have suffered due to pandemic-related closures and it is considering options to restructure its debt. One option is to use an English scheme of arrangement with respect to the Eurobonds. Could the English scheme of arrangement be recognized by a US bankruptcy court under Chapter 15, and would such recognition be as a foreign main or non-main proceeding?

Under Chapter 15, the English scheme of arrangement for Stella would be recognised in the USA and such recognition would be as a non-foreign main proceeding. This is because though Stella has an establish in England in form of a store, England would not be the centre of main interest as it is not the headquarters and main centre of interest for Stella. Therefore, the proceedings would be recognised as non-main proceedings.

Commented [la42]: Correct, 1 mark

Commented [la43]: Correct, 1 mark

Commented [la44]: Correct, 1 mark, the facts here would not overcome the presumption in favor of France as the jurisdiction of incorporation and main recognition is not available when COMI is not in the jurisdiction of the foreign proceedings

Question 4.3 [5 marks]

Commented [la45]: Total marks 0/5

ToyCo is an American toy company that has created a popular line of folding robot toys called Xblox. The toys are covered by several US patents. Currently, GameMart Inc (GameMart) has a 10-year exclusive license to manufacture Xblox and pays ToyCo monthly royalties. GameMart operates a factory in California that it leases from Land Corp on a longer term lease with seven years to go; the lease prohibits assignment without Land Corp's consent. The Xblox toys are selling well, but GameMart's other toy lines are doing poorly, so it is considering a Chapter 11 bankruptcy. Answer the following questions:

(i) Is the license to manufacture Xblox an executory contract?

[Type your answer here]

(ii) Can GameMart transfer the Xblox license as part of 363 sale without ToyCo's consent? Why or why not?

[Type your answer here]

(iii) Can GameMart transfer the factory lease as part of 363 sale without Land Corp's consent? Why or why not?

[Type your answer here]

* End of Assessment *