

EBRD INSOLVENCY OFFICE HOLDER PRINCIPLES

**EBRD PRINCIPLES IN RESPECT OF THE QUALIFICATIONS,
APPOINTMENT, CONDUCT, SUPERVISION, AND REGULATION OF
OFFICE HOLDERS IN INSOLVENCY CASES**

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Contents

•	Introduction	3
•	Principle 1 Qualifications & Licensing Generally	3
•	Principle 2 Appointment in an Insolvency Case	4
•	Principle 3 Review of Office Holder Appointment	5
•	Principle 4 Removal, Resignation & Death of Officer Holder	5
•	Principle 5 Replacement of Office Holder	5
•	Principle 6 Standards of Professional And Commercial Conduct	6
•	Principle 7 Reporting and Supervision	7
•	Principle 8 Regulatory and Disciplinary Functions	8
•	Principle 9 Remuneration	9
•	Principle 10 Release of Office Holder	9
•	Principle 11 Insurance and Bonding	10
•	Principle 12 Code of Ethics	10

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INTRODUCTION

The European Bank for Reconstruction and Development (EBRD) regularly conducts assessments and surveys to measure the extensiveness and effectiveness of insolvency laws in its countries of operations. These laws are measured not against arbitrary or abstract principles but, rather, against international standards and best practices as articulated in, among others, the UNCITRAL *Legislative Guide on Insolvency Law* and the World Bank's *Principles and Guidelines for Effective Insolvency and Creditor Rights Systems*. It is axiomatic that the nature and content of insolvency laws will, and indeed must, vary from jurisdiction to jurisdiction in order to accommodate the rich variety of legal and cultural traditions.

Despite the differences of legal systems, insolvency office holders, variously called trustees, administrators, receivers, liquidators, insolvency representative, are at the heart of many insolvency systems within the EBRD countries of operation and around the world. They are required to act honestly, professionally and responsibly. They are usually given control over assets and significant authority to decide how and when assets are distributed. A properly qualified, trained and regulated cadre of office holders is essential for the transparent, effective and efficient functioning of these systems. Our assessments and surveys demonstrate, however, that many insolvency law regimes are lacking the core elements necessary for the proper functioning of such a system.

The EBRD Insolvency Office Holder Principles articulate the core elements which should be reflected in the development or reform of an insolvency legal regime that provides for the appointment of office holders. They build on the World Bank Principles and Guidelines and the UNCITRAL Legislative Guide, by providing greater detail and guidance on the application of the standards and practices advanced by those institutions.

These Principles seek to advance the integrity, fairness and efficiency of the insolvency law system by ensuring that appropriately qualified professionals hold office in insolvency cases. The Principles should be viewed as guidelines that provide a checklist of issues which should be considered and applied when establishing an insolvency law regime that provides for the employment of an office holder in all insolvency cases.

The Principles were conceived by Mahesh Uttamchandani, former EBRD Insolvency Counsel, and have been developed through the work of the EBRD Operation Leader Jay Allen and the EBRD consultants engaged to formulate the principles, Messrs Ronald W Harmer and Neil H Cooper.

PRINCIPLE 1 – QUALIFICATIONS & LICENSING GENERALLY

Because of the tasks that an office holder might be expected to perform, the responsibilities that an office holder will have and the trust that is reposed in an office holder, it should be the case that an office holder should have some fundamental qualifications. These include general ability and intelligence, experience, professional knowledge and good character. Further, most professions are regulated by a system of licensing. Office holders should be regarded as a professional body of persons and licensed accordingly.

EBRD INSOLVENCY OFFICE HOLDER PRINCIPLES

The law or regulatory framework should therefore provide for:

(a) the qualifications of an office holder

Qualifications should extend to appropriate educational standards, relevant experience skills and good character elements. Certain factors (for example, a criminal conviction for a serious offence such as fraud) should disqualify a person from being eligible to apply to become an office holder.

(b) an examination in insolvency law and practice and other relevant subjects for office holder candidates

An examination about insolvency law and practice and related subjects (such as accounting) is highly desirable. The function of developing an examination curriculum, conducting examinations and continuing education (see later) may be conducted by a government body or a recognised autonomous professional body.

(c) the licensing or registration of a candidate who satisfies the qualification standards

The function of licensing/registration may be conducted by a government body or a recognised autonomous professional body.

(d) a register of licensed/registered office holders

This should be a public register to which access should be available to every court having jurisdiction in insolvency cases and also by public search. This should be maintained by the authority undertaking the licensing function referred to above.

(e) a requirement for continuing education for office holders

See comment under (b) above. This is a common feature of most professional bodies and should apply to the office holder profession.

(f) the renewal of a license or registration

This may be set as appropriate. Renewal should be subject to a number of factors, such as satisfactory conduct of insolvency cases, satisfactory continuing education achievements.

(g) the licensing of a corporate body

This should only be permitted if:

- the above qualifications will apply to the principals of such a corporate body, and
- those principals are personally responsible and accountable for the conduct of the corporate body

PRINCIPLE 2 – APPOINTMENT IN AN INSOLVENCY CASE

There is a need for a predictable and fair process for the appointment of an office holder to an insolvency case.

EBRD INSOLVENCY OFFICE HOLDER PRINCIPLES

Accordingly, the law should state:

(a) the grounds upon which an office holder may be ineligible for appointment

This is not concerned with the general qualifications of an office holder. It is concerned about whether some factor exists that would make it undesirable or inappropriate to appoint a particular office holder in a particular case. Relevant factors would include that a proposed office holder is a creditor of the debtor, conflict of interest, or an absence of independence from the debtor [which may include factors such as (but not limited to) an existing or recent close connection or professional relationship with the debtor (or, in the case of a corporate debtor, its officers, or shareholders) or with a major creditor of the debtor].

(b) the body who may appoint such a office holder

This could be a court or other relevant authority or other body (such as the general creditor body or creditors committee).

(c) in the case of an appointment by a court [or other relevant authority], clear guidelines concerning the manner in which the court should select such an office holder

This might involve the selection of an office holder according to a strict rota taken from the register of office holders. It might also involve the nomination of an office holder by the party who has the carriage of the insolvency proceedings (for example, the debtor or an applicant creditor). It might also involve the referral by the court of the issue of appointment to the general body of creditors.

(d) in the case of an appointment by the general body of creditors or a committee of creditors, the manner in which such appointment may be made

This would normally require provision for a formal meeting and determination by resolution according to a required majority vote.

(e) in the case of an appointment by the debtor or a representative of a debtor, the manner in which such appointment may be made

This would normally require provision for a formal appointment and notification. In the case of an appointment by a corporate debtor it might require a resolution of shareholders or directors.

(f) that there is no restriction upon the number of cases in respect of which an office holder may be appointed

This is necessary to remove any doubt that office holders may be engaged in a number of insolvency cases at the same time.

PRINCIPLE 3 – REVIEW OF OFFICE HOLDER APPOINTMENT

It is important that the process for determining an appointment of an office holder to an insolvency case has regard to the need for transparency and impartiality and that both creditors and debtor, who have a real interest in who might be appointed, have the opportunity to oppose or complain about an appointment.

Accordingly, the law should facilitate the review of a decision to appoint an office holder by:

EBRD INSOLVENCY OFFICE HOLDER PRINCIPLES

(a) providing the grounds upon which an appointment may be reviewed

The grounds would include conflict of interest or other absence of independence, inability to properly administer the case (by reference to expertise, experience and resources) and so forth.

(b) providing a process for a review

In the case of a review of a court appointment this would require an appeal against the decision to appoint the office holder. In the case of an appointment by the general body of creditors (or a committee of creditors), the review would have to be conducted by a court or other relevant tribunal or authority. The process needs to be one that can be conducted speedily and transparently.

(c) if an appointment is set aside, providing for the appointment of another qualified office holder

It is clearly necessary that upon the removal of an office holder, a replacement office holder should be immediately appointed. The law should specify the means to achieve this. It may impose the same rules and procedure for selection as for an initial appointment of an office holder.

PRINCIPLE 4 – REMOVAL, RESIGNATION & DEATH OF OFFICER HOLDER

It may be expected that there will be cases in which the parties in interest may wish to remove an office holder from office and other cases in which an office holder may wish to retire from office or may die.

Accordingly, the law should provide for:

(a) the resignation of an office holder from office

It may be anticipated that, for whatever reason or cause, an office holder may wish to resign an appointment. The law should facilitate that and state the process that must be followed, including the contemporaneous initiation of a process for the appointment of a new office holder.

(b) the grounds upon which an office holder may be removed from an insolvency case

These would normally include incompetence, negligence, breach of duty, fraud and undue delay.

(c) the process for the removal of an office holder

This should normally involve an application to the relevant court or a relevant authority by a concerned party (the debtor, creditors or a regulatory authority) and the conduct of a speedy and transparent hearing.

PRINCIPLE 5 – REPLACEMENT OF OFFICE HOLDER

In the same way that the initial appointment process is important so also is the process of appointment of a replacement.

Accordingly, in any case where an office holder dies, retires or is removed, the law should provide:

EBRD INSOLVENCY OFFICE HOLDER PRINCIPLES

- (a) **for the prompt appointment of a new office holder to replace the former office holder**

As to appointment of a new office holder see comments under Principle 3 (c) above.

- (b) **that the new office holder is entitled, without delay, to the assets, books and records of the debtor in the possession of the former office holder**

This is an important part of the transition/transmission process. The former office holder should be required to account for his/her trusteeship of the estate and affairs of the debtor to the incoming office holder.

- (c) **that the new office holder is entitled, without delay, to the books and records of the former office holder that concern or are related to the previous conduct of the administration of the insolvency case by the former office holder**

This is directed at records that have been kept in relation to the administration of the estate and affairs of the debtor by the displaced office holder.

- (d) **that the retiring or removed office holder must co-operate with and assist the new office holder in the transfer and transmission of the conduct of the insolvency case**

This should be provided for as a general and continuing obligation. Enforcement provisions may be necessary.

PRINCIPLE 6 – STANDARDS OF PROFESSIONAL AND COMMERCIAL CONDUCT

Standards are the most useful way of both establishing and measuring the level of performance expected of office holders.

Accordingly, the law should:

- (a) **by primary legislation, provide basic, fundamental standards that are critical to proper professional and commercial conduct on the part of office holders**

The purpose of such basic standards is to establish basic standards of conduct for all office holders applicable in every case (for example to act honestly, to act diligently, to comply with professional standards). Then, to regulate and guide an office holder in the conduct of his/her work, a sub-set of professional standards are required. They would normally be made by secondary legislation in the form of rules or regulations, or by a recognised professional body of office holders that requires members of the professional body to comply with them.

- (b) **by secondary legislation (or otherwise), provide standards relating to:**

- **reports**

This should deal with reports on the administration of the insolvency case to creditors and a court or other relevant authority and should detail the contents of and time requirement for such reports.

- **initial collection and safeguarding of assets**

This should cover things like identifying assets, insuring of assets, inventory of assets, taking control of bank accounts and so forth.

EBRD INSOLVENCY OFFICE HOLDER PRINCIPLES

- **trading of the debtor's business subsequent to the commencement or opening of the insolvency proceedings**

This should cover such elements as the conditions under which trading may be continued; the liability for continuing obligations of the debtor; the records to be kept; and accounting for taxes on trading.

- **keeping of records**

This should be directed toward the maintenance of records of the administration of the case.

- **convening and conduct of creditors meetings**

This should be directed at content, publication of notices and timing of meetings, conduct of meetings, election of chair person, proposal of resolutions, conduct of voting and so forth.

- **sale and other disposal of assets**

This should deal with the alternative methods of sale, the conduct of an auction, the conduct of a tender, the conduct of a private sale and etc.

- **opening and operation of bank accounts**

This should cover the separation of estate funds from those of the office holder, safeguarding, investment and use of estate funds.

- **reorganisation plan contents and explanatory memorandum**

This should supplement any legislation regarding the information to be contained in and explanation of a plan.

PRINCIPLE 7 – REPORTING AND SUPERVISION

Creditors, the debtor and others with an interest in an insolvency case (for example, a court or regulatory body) are entitled to be regularly informed about the progress of the case and that relevant information is available to them. This may be best facilitated through reports. This also provides a basis upon which the work of an office holder and the progress of an insolvency case may be monitored.

Accordingly, the law should provide:

(a) **that an office holder provide regular reports on the work undertaken and progress of the administration of the insolvency case**

Although this is mentioned in relation to standards under Principle 6 above, it is essential that the principal legislation require appropriate reporting by an office holder to enable those affected by the insolvency case to be kept informed.

(b) **for the appointment, in appropriate cases, of a committee of creditors who may 'oversee' the work of an office holder**

This is not to encourage interference in the performance of the work of an office holder, rather to enable a group of creditors to consider the progress and quality of the work. It can sometimes be achieved by close consultation between the office holder and the committee in relation to the more important matters that arise. A committee of creditors will not be appropriate in all cases. Factors to be considered in determining

EBRD INSOLVENCY OFFICE HOLDER PRINCIPLES

the need include the size of the estate relative to the expense of a committee, the number of creditors and so forth.

(c) that the performance of an office holder in an insolvency case be monitored

This should not be required in respect of every case, but, rather, would be something that is capable of being instituted on an 'ad hoc', sample or 'for cause' basis.

PRINCIPLE 8 - REGULATORY AND DISCIPLINARY FUNCTIONS

The level of trust, responsibility and work standards required of an office holder requires a commensurate level of potential regulation and discipline.

Accordingly, the law should:

(a) provide for a government or other body (including a recognised professional association) to have appropriate regulatory, investigatory and disciplinary powers in respect of office holders

The question to be decided in each jurisdiction is what body should have the power.

(b) provide for the grounds upon which the conduct of an office holder may be investigated

It is suggested that rather than provide broad general grounds (such as 'for good reason or cause'), the law should detail more specific behaviour (such as a failure to comply with a relevant duty or standard).

(c) provide for the powers of such a regulatory body, including the power to:

- **investigate the conduct of an office holder upon a referral from a court, upon the complaint of an affected third party or on its own motion**

This is intended to apply in a case in which the conduct of an office holder should be considered in the context of his/her eligibility to continue as an office holder. It is not intended to usurp the function of a court, for example, in considering a complaint from an affected third party in relation to a particular insolvency case.

- **intervene and be heard on any application to a court concerning the conduct of an office holder or for the removal of an office holder from an insolvency case**

It is important that a court should have the assistance of a regulatory body (an 'industry' view) in cases in which an office holder has been alleged to have engaged in misconduct or where a court is asked to consider the removal of an office holder from an insolvency case.

- **impose disciplinary measures upon an office holder in respect of whom misconduct has been established**

It may not be always appropriate that the regulatory body should have a power to impose penalties or sanctions. It might be preferable to refer any findings of the regulatory body to a court for a consideration of the appropriate penalty to be imposed.

(d) provide that disciplinary powers include a power to:

- **impose a fine upon an office holder**
- **suspend the license or registration of an office holder**
- **terminate the registration or license of an office holder**

EBRD INSOLVENCY OFFICE HOLDER PRINCIPLES

- **require that an office holder compensate third parties who have been affected by the misconduct of an office holder**
- **require that the office holder undergo further education and training**

The above remedies and sanctions are not intended to be exhaustive.

(e) provide for a right of appeal from the exercise of a disciplinary power

The livelihood of an office holder should be respected and any decision that, directly or indirectly, affects that livelihood should be capable of review or appeal.

PRINCIPLE 9 – REMUNERATION AND EXPENSES

Reward: the level of it and the manner in which it may be determined is a critical part of an insolvency office holder regime. Without it there will be no office holders.

Accordingly, the law should provide:

(a) for the entitlement of an office holder to be remunerated for work done by the office holder and to recover expenses properly incurred in an insolvency case

It is axiomatic that a private office holder should be entitled to be remunerated and that expenses properly incurred in the conduct of the case should be reimbursed.

(b) that the entitlement for remuneration of an office holder may be determined by a court, relevant authority or other institution (for example, a committee of creditors)

These can be alternatives or they may create a hierarchy – for example, if creditors fail to resolve the issue, the court may do so.

(c) the basis upon which the remuneration of an office holder may be calculated

This needs careful consideration and a balance is needed between remuneration based on 'time' and a percentage of realisations and/or distributions.

(d) an appropriate mechanism for the review/appeal against the determination of the remuneration payable to an office holder

Depending on the approach taken in (b) above, this may be an appeal to a court or other authority.

(e) for the payment of such remuneration out of the assets of the estate of the debtor including payment on account during the progress of the case

Another possible source is some form of fund established by the government.

(f) an appropriate level of priority for the payment of such remuneration ahead of other claims

With the possible exception of secured creditor claims, there should be no claims that have priority for payment before the remuneration of an office holder. To provide otherwise would run the certain risk of deterring office holders from accepting appointments.

EBRD INSOLVENCY OFFICE HOLDER PRINCIPLES

PRINCIPLE 10 – RELEASE OF OFFICE HOLDER

The law should provide that, subject to any objection by a regulatory body or an interested party, an office holder may be released from his/her appointment as office holder in an insolvency case

The law may provide that this may occur upon the expiry of a term of years (for example, X years from the payment of a final dividend to creditors or from the filing of final accounts or report) or by order of the court upon the application of the office holder. The effect of such a release is, normally, that it formally terminates the appointment of the office holder to the insolvency case. It may also release the office holder from all claims and liability in respect of things done or not done in the administration of the insolvency case.

PRINCIPLE 11 – INSURANCE & BONDING

The law should require that an office holder must at all times maintain a bond or professional indemnity insurance cover to protect third parties against negligence or breach of duty or fraud by an office holder

This is necessary and is consistent with the requirement for such insurance in most professions.

PRINCIPLE 12 - CODE OF ETHICS

The law should encourage and facilitate the development of a code of ethics for office holders, preferably through a professional body

Such a code should deal with appropriate conduct as, for example:

- the need for impartiality
- the need for integrity and accountability
- the need for independence
- the need to avoid the perception of possible conflicts of interest
- the need for proper conduct between office holders (as, for example, if they are competing for appointment to an insolvency case).

The law could compel the application of a 'code' of ethics, either by setting that code or requiring that a code that has been established by a professional body be recognised as binding on office holders.