THE LAW OF THE REPUBLIC OF UZBEKISTAN "ON INSOLVENCY"

COMMENTARY

LAW OF THE REPUBLIC OF UZBEKISTAN

“ON INSOLVENCY”

COMMENTARY

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TEAM OF AUTHORS

Kalandarova Malikakhon Pirnazarovna	Introduction, Chapters IV and XVI
Nazarov Sherbek Ulug‘bek o‘g‘li	Chapters I, II, III
Saydakhmedov Umid Murodovich	Chapter V
Saidov Maqsudbek Norboevich	Chapters VI and XVII
Khudaybergenov Bekhzod Bakhtiyorovich	Chapters VII, IX and X
Maksudov Alisher Maksud o‘g‘li	Chapter VIII
Otakhonov Foziljon Khaydarovich	Chapters XI and XIII (excluding Articles 177–179)
Masadikov Sherzodbek Makhmudovich	Chapter XII
Berdiyarov Rakhmatjon Tojinorovich	Articles 177–179 of Chapter XIII, Chapters XIV and XV
John Martin	International Commentary
Asian Development Bank Project Coordinators:	Hannah Lim (Senior Counsel) Masadikov Sherzodbek Makhmudovich (Consultant) Hyacinth Antonio (Consultant)

This commentary is devoted to the Law of the Republic of Uzbekistan "On Insolvency," providing an article-by-article analysis of the legal norms. The commentary covers in detail the signs of insolvency, judicial and pre-trial procedures, observation, pre-trial rehabilitation, external management, rehabilitation and liquidation processes, the rights and obligations of property owners, creditors and the debtor. It also analyzes the status of the judicial manager, the order of satisfaction of creditors' claims, the procedure for assessing and selling the debtor's property, and the provisions on certain categories of debtors (agricultural enterprises, financial institutions, urban enterprises).

The commentary interprets the legal norms in accordance with judicial practice, international experience, and relevant by-laws. The publication is intended for judges, lawyers, judicial managers, business leaders, professors, teachers, students, and a wide readership interested in this field.

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FOREWORD

At the current stage of New Uzbekistan’s development, ensuring the rule of law, strengthening judicial independence, reliably protecting human rights and freedoms, guaranteeing the inviolability of property rights, and effectively safeguarding the rights and legitimate interests of business entities have become priority areas of state policy. Reforms are being consistently implemented in our country to liberalize the economy, protect private property, foster a healthy competitive environment, enhance investment appeal, and further improve the business climate – all of which are essential prerequisites for building a state governed by the rule of law.

In this process, the judiciary is entrusted with a special responsibility. Courts are an important state institution that ensures not only the restoration of violated rights, but also the stability of economic relations, the reliability of the business environment, investment security, and the consistent development of market relations. The quality and efficiency of justice directly affect the competitiveness of the country's economy, investor confidence, and the level of legal stability.

In today's global economic relations, the institution of insolvency is recognized not only as a legal mechanism regulating private legal relations between debtors and creditors, but also as a vital legal institution that fosters a country's economic security, financial market stability, attractive investment climate, and development of entrepreneurship. Therefore, the reforms being implemented in this area are particularly important for providing a legal basis for the state's economic policy.

In particular, the regulation of insolvency relations in accordance with modern standards serves as a crucial legal guarantee for the sustainable development of the economy, the reliability of credit relations, the preservation of production capacity, and the financial support of business entities. Modern approaches view insolvency not as the termination of an enterprise's economic activity, but rather as a legal mechanism aimed at restoring financial stability, preserving production potential, ensuring the fair protection of creditors' rights, and maintaining the stability of economic relations.

In recent years, our country has implemented comprehensive reforms aimed at radically improving this area. The Decree of the President of the Republic of Uzbekistan No. PF-78 dated May 6, 2026 “On measures to further improve the insolvency institution” brought reforms in this area to a new level. This Decree provides for the development of the insolvency institution based on international standards and advanced foreign experience, the introduction of pre-trial rehabilitation mechanisms, preserving economically viable enterprises, ensuring more reliable protection of creditors' rights, making extensive use of digital technologies, and enhancing the efficiency of state administration in the sector.

The legal basis for these reforms is the Law "On Insolvency." This Law serves to ensure a fair legal balance between the interests of the debtor, creditor, investor, and the state. Most importantly, the new concept of legislation interprets insolvency not only as a procedure for liquidating a legal entity, but as an effective legal mechanism aimed at preserving economic activity, achieving

financial recovery, attracting investment, maintaining production capacity, and protecting jobs.

Modern international experience also confirms this approach. In economically developed countries, the main task of the institution of insolvency is not to liquidate the debtor in any case, but to preserve its economic viability, create legal opportunities for financial recovery, and ensure a balance of interests for all participants. Reforms in Uzbekistan are also being carried out based on this modern legal concept.

The full realization of the aims and objectives of new legal norms depends, first and foremost, on their correct, uniform, and consistent application by the courts. The stability of judicial practice, the assurance of the principle of legal certainty, and the uniform interpretation of legal norms are among the essential prerequisites for the effectiveness of the administration of justice. Therefore, preparing a commentary on the law represents a significant step toward improving the practice of law application, establishing unified legal approaches in judicial activity, and enhancing legal culture.

The main purpose of this commentary is to thoroughly explain the content and essence of each provision of the Law "On Insolvency," to explain the legal ideas and goals that underlie their adoption, to analyze potential issues that may arise in the application of legal provisions, and to formulate unified approaches to the practice of law enforcement.

In the process of preparing the commentary, national legislation, the Constitution and other regulatory legal acts in the field, the practice of the Supreme Court, research by legal scholars, recommendations of international organizations, and advanced legal experience of foreign countries were extensively studied. This further increases the practical significance of this publication and its value as a useful source for law enforcement practice.

At the same time, the interpretation of legal norms serves to prevent divergent approaches in the practice of law enforcement, ensure legal certainty, and increase the consistency and quality of court decisions. Interpretations help law enforcement entities to understand legal norms in depth, apply them on the basis of a unified legal approach, and formulate proposals for further improvement of legislation.

I am confident that this commentary will serve as a reliable legal resource for judges, court administrators, lawyers, prosecutors, government officials, business entities, legal scholars, researchers, academic staff, and students. Most importantly, I believe it will make a significant contribution to the correct and uniform interpretation of the provisions of the Law "On Insolvency," the establishment of consistent judicial practice, the enhancement of the effectiveness of law enforcement, and the further development of the insolvency framework in our country.

Robakhon Mahmudova

Chairman of the Supreme Court of the Republic of Uzbekistan

FOREWORD

An effective insolvency system is essential for a modern, competitive, and resilient economy. As the global and local economies evolve, businesses inevitably encounter financial distress. A robust insolvency framework provides effective pathways and legal certainty to preserve viable enterprises, maximize creditor value, and reallocate capital efficiently. In this way, insolvency laws support productivity, strengthen investor confidence, improve access to finance, and foster the growth of the private sector.

Effective insolvency frameworks are especially important for countries undergoing economic transformation. As Uzbekistan advances its reform agenda and strengthens its market economy, establishing a predictable and transparent insolvency regime is essential for fostering entrepreneurship, investment, and growth. The adoption of Uzbekistan's Insolvency Law in 2022 was a significant milestone, introducing a modern legislative framework aligned with international standards and current commercial practice.

However, legislation alone is not enough. The effectiveness of an insolvency regime depends on its interpretation, application, and implementation. This is a practical example of how strong legal institutions are necessary for sustainable economic development. In Uzbekistan, the judiciary, led by the Supreme Court, plays a central role in ensuring that the law is applied consistently, transparently, and predictably.

The Asian Development Bank (ADB) has, through its Law and Policy Reform Program, partnered with governments and judiciaries across Asia and the Pacific for over a decade to strengthen commercial legal frameworks, modernize dispute resolution, and build institutional capacity. For insolvency law, this work includes supporting with legislative and institutional reform, promoting regional policy dialogues and judicial knowledge sharing, and promoting international good practice in restructuring, rehabilitation, and insolvency systems.

Building on this partnership, ADB is delighted to have supported the development of the Uzbekistan Insolvency Law and Practice Commentary in close collaboration with the Supreme Court of Uzbekistan. Created through a highly collaborative process involving judges, the Uzbekistan State Assets Management Agency (UzSAMA), academics, and international experts, the Commentary draws on both national expertise and international experience.

This Commentary offers a comprehensive analysis of Uzbekistan's Insolvency Law, combining domestic interpretation with international perspectives to support consistent and effective implementation. It serves as a practical resource for the judiciary, government institutions, insolvency practitioners, legal professionals, and the business community. It reflects our collective commitment to supporting the development of high-quality legal resources and the ongoing implementation of Uzbekistan's insolvency framework.

As Uzbekistan strengthens its legal and institutional foundations to promote the development of the private sector, ADB is pleased to support these efforts through its ongoing partnership with the Government and judiciary. We hope this Commentary will be a valuable reference for judges and practitioners, promote greater consistency and predictability in insolvency practice, and support the continued development of an effective insolvency system that encourages investment, business confidence, and inclusive growth.

It has been a privilege for ADB's Law and Policy Reform Program to support this publication in close partnership with the Supreme Court of Uzbekistan and with UzSAMA. I sincerely thank the judges of the Supreme Court, UzSAMA, national and international experts, and ADB colleagues whose expertise, dedication, and collaboration have made this Commentary possible.

Jennifer Ngai
Deputy General Counsel,
Asian Development Bank

INTRODUCTION

In the conditions of a modern market economy, the institution of insolvency, as an integral legal element of economic relations, plays an important role in the economic stability of the state, its investment attractiveness and the effective functioning of the business environment. The liberalization of the economy, the strengthening of the inviolability of private property, the expansion of credit relations and the increasing complexity of economic relations between market participants make the effective legal regulation of insolvency relations one of the priority areas of state economic policy.

The primary objective of insolvency law is not to remove a financially distressed debtor from economic circulation, but rather to preserve opportunities for restoring its solvency, ensure the fair protection of creditors' rights and legitimate interests, maintain the continuity of business operations, and establish legal stability in economic relations. In this sense, it constitutes a complex legal institution situated at the intersection of private law, economic procedural law, corporate governance, the banking and financial system, and investment relations.

Global experience demonstrates that insolvency legislation in developed economies has undergone a significant transformation in recent decades. The previously dominant approach based on liquidation has been gradually replaced by modern models aimed at rehabilitation, restructuring, and restoration of economic activity. Today, the institution of insolvency is recognized not only as a means of satisfying creditors' claims, but also as an important legal mechanism that serves to effectively redistribute economic resources, preserve production potential, protect jobs, and ensure the stability of the investment climate.

In the Republic of Uzbekistan, the liberalization of the economy, increasing the share of the private sector in the economy, comprehensive support for entrepreneurship, and the country's deep integration into international economic relations have created the need to develop completely new legal approaches in the field of insolvency. Based on these needs, the **Law of the Republic of Uzbekistan "On Insolvency,"** enacted on April 12, 2022, marked an important stage in the development of national legislation.

This Law, being a logical continuation of the previously valid **Law "On Bankruptcy",** has formed a completely new legal model in terms of its content, legal concept and regulatory mechanism. The scope of the Law has been expanded, and the insolvency of individuals, along with legal entities and individual entrepreneurs, has also been defined as an object of legal regulation.

Furthermore, procedures aimed at restoring the debtor's financial stability were improved, legal safeguards for creditor rights were strengthened, the legal framework governing the activities of court-appointed administrators was refined, and a regulatory mechanism for insolvency matters aligned with international standards was established.

The adoption of the new Law also posed completely new challenges for the practice of law enforcement. Many of the provisions of the Law provide for legal institutions that are new to national legislation. A correct understanding of their content, legal nature, and mechanism of action is of great importance in the activities of courts, state bodies, judicial managers, lawyers, legal service employees, banks and other law enforcement entities. Therefore, one of the urgent tasks is to interpret the provisions of the law on the basis of a single approach,

to apply them consistently and uniformly, and to ensure legal certainty in law enforcement .

The social significance of any law is manifested not in its text, but in how it is understood and applied in practice. The legislator's intent is fully realized only when the law is correctly understood by those applying it and consistently implemented in practice. A systematic and comprehensive interpretation of legal norms is of particular importance in the sphere of insolvency, given the close interrelationship between norms of civil, economic procedural, corporate, banking, labor, and tax legislation during their application.

It is this need that was one of the main factors in preparing this commentary. The purpose of the commentary is not limited to simply explaining the text of the Law, but also to interpreting the legal content of each of its norms, the will of the legislator, the interrelationship between legal institutions, their significance in the practice of law enforcement, and from the point of view of modern legal doctrine.

This commentary is not limited to a separate interpretation of each provision of the Law. Its main task is to reveal the institution of insolvency as a holistic legal system, to show the internal logic of the Law, the interrelationship between legal constructs, and solutions to problems that may arise in the process of applying the law. To this end, each article of the Law was analyzed from the point of view of the legal ideas underlying its adoption, the regulatory purpose, and its significance in practice.

In the process of preparing the comments, generally recognized modern legal methods of interpreting legal norms were used in a comprehensive manner. In particular, grammatical, logical, systematic, historical, and functional interpretation methods were combined with comparative legal analysis. This made it possible to evaluate each norm of the Law not only in terms of its lexical content, but also from the point of view of the will of the legislator, the purpose of legal regulation, and its place in the entire legislative system.

At the same time, the provisions of the Law were analyzed in close conjunction with the Constitution of the Republic of Uzbekistan, the Civil Code, the Economic Procedural Code, the Tax Code, the Labor Code, and other regulatory legal acts concerning insolvency relations. Such an approach makes it possible to correctly understand not merely an individual legal norm, but its role and function within the legal system as a whole.

Another important feature of the commentary is its focus on the practice of law enforcement. In interpreting the norms of the law, a comparative analysis was carried out of the decisions of the Plenum of the Supreme Court of the Republic of Uzbekistan, legal approaches formed in the practice of economic courts, and legal positions of authorized state bodies. This not only ensures the theoretical substantiation of the commentary, but also further increases its practical significance.

Since insolvency law has become an integral part of modern economic relations, it is impossible to analyze national legislation in isolation from international legal experience. In this regard, the model instruments of the United Nations Commission on International Trade Law (UNCITRAL), recommendations of the World Bank and other international organizations were used in the preparation of the commentary.

Another distinctive feature of the commentary is that it consistently interprets **all seventeen chapters and each article of the Law of the Republic of Uzbekistan "On Insolvency"** article by article. In the analysis of each article, special attention was paid to its legal nature, subject of regulation, legal construction, conditions of application, legal consequences, and problematic situations that may arise in practice. This approach allows the commentary to be used not only as a theoretical source, but also as a practical guide for courts, court administrators, state bodies, lawyers, legal consultants, and other law enforcement entities.

In preparing the commentary, objectivity, legal clarity, and practical orientation were adopted as the primary principles. The authors did not limit themselves to a single point of view on certain controversial legal issues, but tried to assess their legal validity and practical significance. This allows the commentary to serve as an important theoretical source for scholarly discussions as well.

Another distinctive feature of this commentary is that its concluding section includes, as an appendix, an international commentary by a foreign expert with extensive experience in the field of insolvency law. These materials are presented not as an integral part of the main commentary, but as an independent source supplementing it. They provide an additional opportunity for a comparative assessment of national law with international legal experience, understanding modern trends and drawing scholarly conclusions on further improving legislation.

In this regard, this commentary is not merely a practical guide to interpreting legal provisions. It was prepared as a comprehensive practical study aimed at shaping a modern national doctrine of insolvency law and seeks to strengthen the interrelationship between legislation, legal practice, and legal scholarship.

In national legal practice, the preparation of commentaries on laws plays a significant role in developing legal doctrine, deeply elucidating the substance and essence of legal norms, and establishing a unified practice of law application. Such publications go beyond merely interpreting the text of the law; they serve to illuminate the legal concepts underpinning its enactment, the intent of the legislator, the interrelationships between legal institutions, and the foundations of the application of the law.

In this sense, this commentary occupies a special place in the national legal literature. It is the **third fundamental practical commentary** on the legislation of insolvency (bankruptcy) in our country . While the scientific and practical commentaries on the previously effective Laws "On Bankruptcy" made a worthy contribution to the formation of the practice of applying the law on this institution for their time, this commentary was prepared as the first comprehensive and systematic commentary on the **Law "On Insolvency,"** adopted on April 12, 2022.

This commentary is not a simple continuation of previous publications. The new law has brought the legal concept of the institution of insolvency to a qualitatively new level. Therefore, this commentary was prepared on the basis of a completely new approach, taking into account the content, legal nature and mechanism of action of the new legislation. In it, each legal norm is assessed not separately, but as a component of the entire legal system.

Another important feature of this commentary is that it has been prepared by a highly respected team of authors representing various fields. The work on the

commentary involved representatives of the judiciary, state administration bodies, the authorized state agency for insolvency, higher educational institutions, and research organizations, as well as highly qualified specialists directly involved in legal practice. This approach also ensured the practical significance and viability of the commentary.

The team of authors included legal scholars, judges, government officials, insolvency practitioners, and academic researchers. Although each chapter was prepared by an author with in-depth knowledge and practical experience in the relevant field, the general concept, style, consistent use of legal terminology, and substantive coherence were carefully ensured. Consequently, this publication is not merely a collection of individual contributions but a comprehensive, practical work developed upon a unified concept and methodology.

In preparing this commentary, the authors set as their primary objective the facilitation of a correct and uniform understanding and application of legal norms, as well as the assurance of legal certainty and consistency in judicial practice. In this sense, the commentary represents the product of collective intellectual effort, embodying the knowledge and experience of various state bodies, the judiciary, academic institutions, and legal practitioners.

The commentary is intended primarily to serve as a practical guide in the daily activities of judges, judicial managers, lawyers, prosecutors, employees of state bodies, legal service employees, specialists of banks and other credit organizations, and entrepreneurs. At the same time, it is expected to serve as an important theoretical source for scholars conducting scholarly research in the field of law, independent researchers, and doctoral, masters, and law students.

The authors do not consider this commentary as a definitive answer to all issues in the field of insolvency, but as an open forum for dialogue that contributes to the development of legal doctrine. In the context of the rapid development of economic relations, digital technologies, financial markets and cross-border legal relations, insolvency law is also constantly improving. Therefore, it is natural that this commentary will be further enriched in the future, taking into account further developments in law enforcement, judicial practice, and legislation.

The authors believe that this commentary will make a significant contribution to the uniform understanding and application of the **Law of the Republic of Uzbekistan "On Insolvency,"** to ensuring legal certainty and legal stability, to the consistent development of judicial practice, and to the development of national legislation. It is believed that it will make a worthy contribution to further enriching the doctrine of insolvency law.

At the same time, it is hoped that the suggestions and comments from readers, legal practitioners, and the academic community will serve as an important source for further improving future editions of this commentary.

Malikakhon Kalandarova
Deputy Chairman of the Supreme Court of the Republic of Uzbekistan,
Candidate of Legal Sciences, Docent

COMMENTARY ON THE LAW OF THE REPUBLIC OF UZBEKISTANON INSOLVENCY

Translator's Note: This commentary was originally written in the Uzbek language (except for the international commentary which was originally written in English). The English text presented here is a direct translation and has not been edited for syntax or structure. The paragraph numbers likewise follow that of the original Uzbek version, corresponding to the structure of the underlying law in line with the convention of legal commentaries in Uzbekistan.

CHAPTER 1. BASIC RULES

Article 1. Purpose of Present Law

The purpose of the present Law shall be the regulation of relations in the field of insolvency of legal entities and natural persons, as well as individual entrepreneurs.

The present Law shall not apply to state institutions and other non-profit organizations, with the exception of legal entities operating in the form of a consumer cooperative or public fund.

The commented article is a traditional norm of lawmaking, which defines the purpose and scope of the Law of the Republic of Uzbekistan "On Insolvency" (hereinafter referred to as the Law), as well as the range of social relations regulated by this Law.

1. The purpose of the Law is to regulate insolvency-related matters involving legal entities and natural persons, and individual entrepreneurs (hereinafter referred to as IE). The primary objective is to ensure a fair and effective procedure for resolving economic insolvency and implementing insolvency proceedings. This approach creates a legal basis for resolving situations where organizations or natural persons are unable to fulfill their obligations to creditors and minimizes the consequences for all parties involved.

The institution of insolvency is one of the most important legal mechanisms regulating property relations. It has two primary functions for economic entities. The first is to provide a debtor who has temporarily lost solvency and found themselves in a state of economic insolvency with the opportunity to restore their financial position through established procedures and subsequently fulfill their obligations. The second is that if it is determined that the debtor's financial position cannot be restored, liquidation proceedings are initiated, which provide for the maximum possible satisfaction of creditors' claims. This institution is an essential element of a

market-based economy, without which sustainable economic development is impossible.

Thus, the institution of insolvency is one of the mechanisms for strengthening the economy through the financial recovery of economic entities that are in a state of economic insolvency but retain the ability to restore their solvency, or through the release of the economy from entities that are in a similar state of crisis, characterized by low profitability, inability to cover their own expenses, lack of profitability and prospects for further development.

Article 39 of the **Civil Code** of the Republic of Uzbekistan (hereinafter referred to as the CC) defines a *legal entity.* According to this article, a legal entity is an organization that owns or operates separate property and is liable for its obligations with that property, can acquire and exercise property and personal non-property rights on its own behalf, bear obligations, and be a plaintiff and defendant in court.

An IE is a natural person registered in the prescribed manner and engaged in entrepreneurial activity without forming a legal entity. According to Article 6 of the Law of the Republic of Uzbekistan **"On Guarantees of Freedom of Entrepreneurial Activity**," an IE operates independently based on property owned by them, as well as other property rights that allow for the possession and (or) use of property. An IE conducts entrepreneurial activity in their own name, acquires and exercises rights, and bears obligations. When concluding transactions related to entrepreneurial activity, a natural person must indicate that he is acting as an IE, unless this directly follows from the nature of the transaction. The absence of such an indication does not relieve the IE from liability for the obligations assumed.

According to Article 26 of the CC, an IE may be declared insolvent by a court if they are unable to fully satisfy creditors' claims for monetary obligations and (or) fulfill their obligations to pay taxes and duties. Furthermore, a natural person who has lost their IE status may also be declared insolvent by a court in accordance with the established procedure if they are unable to fully satisfy creditors' claims for monetary obligations and (or) fulfill their obligations to pay taxes and duties, provided that the relevant claims arose in connection with their previous entrepreneurial activity.

In addition to regulating insolvency relations for legal entities and IEs, the Law also addresses the legal regulation of relations related to the insolvency of natural persons. The institution of insolvency of natural persons was introduced as a new practice. Chapter 14 of the Law, which entered into force on 1 January 2023, is specifically devoted to issues of insolvency of natural persons.

The legal definition of a *natural person* is contained in Article 16 of the CC, according to which citizens (natural persons) include citizens of the Republic of Uzbekistan, citizens of other countries, and stateless persons. According to Article 26^1 of the CC, a natural person may be declared insolvent by a court if they are unable to fully satisfy creditors' claims for monetary obligations and (or) fulfill their obligations to pay taxes and duties.

According to the Law, the introduction and regulation of the institution of insolvency of natural persons (sometimes referred to as “consumer bankruptcy” in international insolvency practice) is an important stage in the development of the insolvency system of the Republic of Uzbekistan. This innovation is expected to contribute to the increased resilience of the Uzbek economy and ensure adequate protection for both citizens (who are increasingly using consumer loans) and their creditors (who provide consumer loans and are therefore interested in fair and predictable outcomes for clients facing insolvency).

2. The Law does not apply to government entities and other non-profit organizations. Exceptions are non-profit organizations established in the form of consumer cooperatives and public funds, to which the provisions of the Law apply. It follows that entities financed in whole or in part from the State budget, as well as non-profit organizations, cannot be declared insolvent.

This provision of the Law limits an overly broad approach in law enforcement practice and facilitates a clearer determination of jurisdictional matters by the courts. Furthermore, the Law applies exclusively to economic relations of a commercial nature, therefore excluding budgetary organizations and entities engaged in non-profit activities from its scope. These include, for example, state educational and preschool educational entities, healthcare organizations, and law enforcement bodies.

Taking into account the exceptions provided for in part two of this article, the number of non-profit organizations to which the Law does not apply includes establishments, public associations, associations of legal entities, as well as citizens’ self-government bodies.

The law does not apply to “state entities,” which is a justified exception, since insolvency proceedings must apply to all enterprises, except where such entities can be dealt with under special legislation.

According to the Regulation on state entities, approved by the Cabinet of Ministers Resolution of 21 July 2023 No. 302, *a state person* is a legal entity created by a government body or organization to perform administrative, socio-cultural, or other non-commercial functions and financed in whole or in part by such body or organization. According to paragraph 17 of the Regulation, a state person is liable for its obligations with the funds at its disposal. If such funds are insufficient, unless otherwise provided by acts of the President of the Republic of Uzbekistan or the Cabinet of Ministers, the founder bears subsidiary liability for the obligations of the state person.

According to Article 178 of the CC (right of operational management), a state person exercises, within the limits established by law, the right to own, use, and dispose of the property assigned to it, in accordance with the objectives of its activities, the owner’s tasks, and the intended purpose of the property. According to Article 180 of the CC, a person may not alienate or otherwise dispose of the property assigned to it, nor any property acquired with funds allocated to it in the budget. If

the person's constituent documents grant it the right to engage in income-generating activities, the income received from such activities, as well as the property acquired with such income, are at the person's sole disposal and are accounted for on a separate balance sheet.

Another important provision of this norm is the establishment that the Law applies to a legal entity operating as a consumer cooperative or a public fund. Its legal logic is also reflected in Article 208 of the CC, according to which citizens, business partnerships and companies, *cooperatives,* public associations, *public funds*, and other non-governmental legal entities are recognized as subjects of private property rights.

According to Article 57 of the CC, a legal entity operating in the form of a consumer cooperative or public fund may be declared insolvent by the court if it is unable to fully satisfy the claims of creditors for monetary obligations and (or) fulfill its obligations to pay taxes and duties.

According to Article 73 of the CC, *a consumer cooperative* is a voluntary association of citizens based on membership, created to meet the material (property) needs of participants, which is carried out by combining their property (share) contributions.

According to this article of the CC, members of a consumer cooperative are required to cover any losses incurred by making additional contributions within three months of the approval of the annual balance sheet. Failure to fulfill this obligation may result in the cooperative being liquidated by the court at the request of creditors. Members of a consumer cooperative bear subsidiary liability for its obligations up to the outstanding portion of additional contributions payable by each member. Members of the cooperative bear joint and several liability.

Article 2. Legislation on Insolvency

The legislation on insolvency shall consist of the present Law and other acts of legislation.

Where an international treaty of the Republic of Uzbekistan stipulates other rules than those provided for by the legislation of the Republic of Uzbekistan on insolvency, then the rules of the international treaty shall apply.

The commented article defines the composition of the legislation on insolvency, as well as the relationship between the legislation of the Republic of Uzbekistan and international treaties in this area.

1. The provisions of the commented article are of importance in the system of sources of legal regulation of insolvency. They define the legal nature of the regulatory legal acts governing the relations specified in Article 1 of the Law.

The current legislation on insolvency consists not only of the provisions of this Law, but also of a number of legal norms contained in other regulatory legal acts.

The first part of this article establishes the basic system of legal regulation of insolvency in the Republic of Uzbekistan. The term “legislative acts” includes the Constitution of the Republic of Uzbekistan, laws (including codes), decrees, resolutions, and orders of the President of the Republic of Uzbekistan, resolutions of the Cabinet of Ministers, as well as orders and decisions of ministries and departments, and decisions of local government bodies.

“Other legislative acts” shall mean, in particular: the Economic Procedural Code of the Republic of Uzbekistan (hereinafter referred to as the EPC), the Tax Code of the Republic of Uzbekistan, the Code of Administrative Responsibility, the Law “On the Rehabilitation of Agricultural Enterprises,” the Resolution of the President of the Republic of Uzbekistan dated 1 February 2019 No. PP-4146 “On measures to further simplify the bankruptcy procedure and radically improve the activities of judicial managers;” “Rules for identifying signs of false insolvency, concealment of insolvency and deliberate insolvency,” approved by Resolution of the Cabinet of Ministers dated 14 August 2013 No. 224; the Regulation on the procedure for issuing a qualification certificate of a judicial manager, approved by the Resolution of the Cabinet of Ministers dated 30 December 2025 No. 838, and others.

Resolutions of the Plenum of the Supreme Court of the Republic of Uzbekistan are not normative legal acts. However, in accordance with Article 25 of the Law of the Republic of Uzbekistan “On Courts,” clarifications of the Plenum of the Supreme Court of the Republic of Uzbekistan on matters of application of legislation are binding on courts, government bodies and other bodies, enterprises, institutions, organizations and officials applying the relevant legislation. Therefore, it should be noted that judicial decisions adopted in conflict with these clarifications of the Plenum may be grounds for their repeal in accordance with the established procedure.

In particular, the Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan dated 23 June 2025 No. 13 “On Certain Issues of the Application by Economic Courts of the Provisions of the Law of the Republic of Uzbekistan ‘On Insolvency’ by economic courts” is of great importance when considering insolvency cases.

The Law’s provisions are aimed at improving the efficiency of restoring the operations of insolvent enterprises through the application of rehabilitation procedures, as well as the liquidation of unpromising enterprises. Furthermore, it establishes a legal framework for regulating relations related to the insolvency of natural persons.

In particular, besides legal entities, the concept of insolvency of natural persons is determined, as well as its main characteristics, grounds, and criteria for initiating insolvency proceedings against a natural person; insolvency procedures that can be applied in this process, the procedure for concluding a settlement agreement, the procedure for releasing the debtor from obligations, the rights and obligations of the creditor, debtor and financial manager, as well as the procedure for considering the case in court, and the terms and powers of the court.

The CC enshrines important fundamental provisions in the area of insolvency. Specifically, Article 57 of the CC stipulates that a legal entity that is a commercial organization, as well as a legal entity operating as a consumer cooperative or public fund, may be declared insolvent by a court if it is unable to fully satisfy creditors' claims for monetary obligations and (or) fulfill its obligations to pay taxes and duties.

In addition, Article 26 of the CC sets forth provisions on the insolvency of an IE and a natural person who has lost the status of an IE, Article 26^1 of the CC sets forth provisions on the insolvency of a natural person, and Article 48 of the CC sets forth provisions concerning liability in the event of insolvency of a legal entity.

Procedural aspects of insolvency of legal entities and IE are regulated, along with the Law, also by the EPC.

Insolvency regulations may also be contained in orders and resolutions of ministries and departments. Such departmental acts are sources of legal regulation and occupy an independent place in the legislative system. However, these acts may only be adopted in cases and within the limits stipulated by the Law, the CC, and other legislative acts (decrees and resolutions of the President of the Republic of Uzbekistan, resolutions of the Cabinet of Ministers).

Regulatory legal acts of executive authorities that have not undergone state registration, or that have undergone registration but not been published in the prescribed manner (with the exception of acts containing information constituting a state secret or confidential information, as well as individual provisions of such acts), do not enter into force and do not generate legal consequences. They cannot serve as the basis for regulating relevant legal relations or for imposing penalties on individuals, officials, and organizations for failure to comply with the requirements contained therein. Such acts are not applicable in dispute resolution.

It is important to note that in the event of contradictions and conflicts between regulatory legal acts governing this area, the Law takes precedence, and the provisions of other regulatory legal acts are not applicable.

2. The second part of the commented article enshrines the principle of the priority of international law. This provision is based on the universal principle of the legal system of the Republic of Uzbekistan: in the event of a discrepancy between the provisions of national legislation and an international treaty of the Republic of Uzbekistan, the provisions of the international treaty take precedence.

This principle is fully consistent with Article 15 of the Constitution of the Republic of Uzbekistan, Articles 33 and 34 of the Law "On International Treaties of the Republic of Uzbekistan," as well as the fundamental principle of international law, *pacta sunt servanda* (treaties must be observed). In particular, Article 26 of the 1969 Vienna Convention on the Law of Treaties elucidates this principle, stating that "every treaty in force is binding upon the parties to it and must be performed by them in good faith." This international legal obligation stems from the generally recognized provision enshrined in Article 2, paragraph 2, of the United Nations Charter, according to which "All Members, in order to ensure to all of them the rights

and benefits resulting from membership, shall fulfill in good faith the obligations assumed by them in accordance with the present Charter."

This norm is aimed at achieving the following priority goals: a) systemic coordination of cross-border insolvency relations; b) protection of the rights and legitimate interests of foreign creditors; c) ensuring the fulfillment of obligations arising from international economic transactions; d) further strengthening the authority of the Republic of Uzbekistan in the international legal arena.

Insolvency procedures in the modern economy are not limited to the territory of a single state. Given the complex relationships involving foreign investors and transnational corporations, national legislation is not always able to fully cover all legal aspects. Therefore, enshrining the priority of international treaties ensures the consistency of legal norms in the area of insolvency.

This provision is mandatory and directly applicable. It aims to eliminate potential conflicts between national and international law in cross-border insolvency proceedings and guarantees the application of international law in such cases.

Currently, the Republic of Uzbekistan is not a party to any international insolvency treaties. The United Nations Commission on International Trade Law (UNCITRAL) has developed a Model Law on Cross-Border Insolvency, which is recommended for implementation by states in their national legal systems (United Nations General Assembly resolution 52/158 of 15 December 1997).

In international practice (particularly in the UNCITRAL Model Law on Cross-Border Insolvency and the European Union Insolvency Regulation), mechanisms such as interjurisdictional cooperation, recognition of foreign proceedings, asset search and recovery, and consolidation of creditor claims occupy a central place. Since these processes are not yet fully regulated in the national legislation of the Republic of Uzbekistan, recognition of the primacy of international treaties is not only a theoretical but also an important practical legal necessity.

In particular, investment transactions and bilateral investment protection treaties contain special provisions guaranteeing creditors' rights. If national legislation imposes restrictions or less favorable conditions on foreign creditors, the provisions of the international treaty take precedence. Furthermore, in cases where debtors' assets are located in foreign countries, the processes of locating, protecting, and recovering them are governed by international agreements. These provisions are particularly important when considering insolvency cases involving enterprises with foreign capital.

Article 3. Basic Concepts

The following basic concepts are used in this Law:

bankrupt—a debtor recognized as insolvent on the basis of a court decision, in respect of whom the procedure of liquidation proceedings or sale of his property is applied;

homogeneous creditors—a group of creditors who have uniform claims against the debtor and do not have an advantage over each other in satisfying them;

settlement agreement—an agreement between the parties to terminate insolvency proceedings on the basis of mutual concessions;

creditors—legal entities or natural persons to whom the debtor is liable for monetary obligations and (or) the fulfillment of obligations on taxes and duties, with the exception of citizens to whom the debtor is liable for causing harm to life or health, as well as founders (participants) of the legal entity debtor for obligations arising from such participation;

representative of the meeting of creditors or the creditors' committee—a person authorized by the meeting of creditors or the creditors' committee to participate in insolvency proceedings;

observation procedure—a procedure applied by the court in an insolvency case against a legal entity debtor, from the date of acceptance of the application for declaring the debtor insolvent until the next procedure in order to ensure the safety of its property, conduct an analysis of the financial condition of the debtor, compile a register of creditors' claims and hold the first meeting of creditors;

property sale procedure—a procedure applied in the context of insolvency proceedings to proportionately satisfy the claims of creditors in relation to a natural person;

moratorium—suspension of the execution by a legal entity debtor of monetary obligations and (or) duties on taxes and duties;

monetary obligation—the obligation of a debtor to pay a creditor a certain sum of money under a civil law contract, as well as on other grounds;

taxes and duties are mandatory payments made to the State budget of the Republic of Uzbekistan and (or) state target funds;

false insolvency—causing damage to creditors as a result of a declaration by a legal entity or natural person, as well as an individual entrepreneur, of the impossibility of fulfilling obligations on monetary liabilities and (or) fulfilling obligations for taxes and duties in full, knowing of their economic solvency to fulfill them;

a judicial manager (temporary manager, rehabilitation manager, external manager, liquidation manager, financial manager) is a person appointed by the court to conduct insolvency proceedings and who is a member of a public association of judicial managers;

judicial rehabilitation procedure—a procedure applied by the court to a legal entity debtor to restore its solvency and pay off debts to creditors, without transferring powers to manage the debtor's affairs to a rehabilitation manager;

pre-trial rehabilitation—measures taken by the founders (participants) or the owner of the property of the legal entity debtor, creditors and other persons to restore solvency and prevent insolvency of the debtor;

external management is a procedure for restoring solvency applied by the court to a legal entity debtor for its financial recovery, with the transfer of powers to manage the debtor's affairs to an external manager;

liquidation proceedings—a procedure applied by the court to a debtor for the purpose of proportionately satisfying the claims of creditors and declaring the debtor free from obligations and its liquidation, with the exception of cases of insolvency of a natural person;

insolvency is the inability of a debtor, recognized by the court, to fully satisfy the demands of creditors for monetary obligations and (or) to fulfill its obligations on taxes and duties;

insolvency restoration procedure—a procedure applied by the court to a legal entity debtor, including judicial rehabilitation or external management and providing for the implementation of measures aimed at restoring its solvency;

concealment of insolvency—causing damage to creditors as a result of the submission by a legal or natural person, as well as an individual entrepreneur, of information and documents that do not correspond to reality, distortion of financial statements or other deliberate concealment of their insolvency;

debtor—legal entities or natural persons, as well as individual entrepreneurs, who are unable to satisfy the demands of creditors for monetary obligations and (or) fulfill their obligations on taxes and duties;

representative of the founders (participants) of the debtor or the owner of the property—a person authorized by the founders (participants) or the owner of the debtor's property during insolvency proceedings;

representative of the debtor's employees—a person authorized by the debtor's employees to represent their interests during insolvency proceedings;

debt restructuring procedure—a procedure applied within the framework of insolvency proceedings to restore solvency in relation to a natural person and satisfy the claims of creditors;

intentional insolvency—the deliberate creation or increase of insolvency committed by a person who is a member of the governing body of a legal entity, a founder (participant) or owner of a legal entity, as well as a natural person or individual entrepreneur in personal interests or the interests of other persons;

agricultural enterprise—an agricultural cooperative, a farm and a dehkan farm with the formation of a legal entity, as well as other legal entities whose main activity is the production of agricultural products;

a city-forming enterprise or enterprise equivalent to it is a legal entity whose employees, taking into account their family members, make up at least half of the population of the corresponding locality or whose number of employees is at least three thousand people, or which provides for the maintenance of the defense capability and security of the state, and which is also of strategic importance or is a subject of natural monopolies.

The article under review defines the system of fundamental legal institutions and concepts used in insolvency proceedings. Given the complex and multi-stage nature of insolvency, clear legislative determination of these key concepts is essential for courts and parties involved in insolvency proceedings.

Most of the above concepts are fully consistent with international insolvency law standards (the UNCITRAL Model Law and World Bank Principles for Effective Insolvency and Creditor/Debtor Regimes) and contribute to the integration of the national legal system with international standards.

This article provides precise definitions of the main terms (definitions) used in legislation, which ensures their uniform interpretation and understanding in law application practice.

See also: International Commentary, p. 719.

Article 4. Current Payments

Current payments are monetary obligations and (or) taxes and duties that have arisen since the date of commencement of insolvency proceedings.

Creditors' claims for current payments are not reflected in the register of creditors' claims.

Satisfaction of creditors' claims for current payments during insolvency proceedings shall be carried out in accordance with the first part of Article 150 of this Law.

The commented article provides that monetary obligations, as well as taxes and duties that arose after the initiation of insolvency proceedings, are recognized as current payments, the claims for which are not included in the register of creditors' claims and are satisfied in the order of priority established by Article 150 of the Law.

1. In accordance with the first part of this article, obligations arising after the initiation of insolvency proceedings, that is, debt for goods, works, or services accepted by the debtor, are recognized as current payments.

After the court accepts an application to declare a debtor insolvent, his business operations (regardless of the type of procedure) generally continue. Therefore, to ensure the effectiveness of the process, the obligation to promptly pay the following current expenses remains: utility and maintenance bills; rent for movable and immovable property; employee salaries; current taxes and duties; and other operating expenses.

Failure to make the specified payments does not allow for the effective implementation of the rehabilitation, external management or liquidation procedures.

Furthermore, the debtor may face liquidity problems. In such a situation, it is necessary to settle obligations by entering into new loan agreements with financial institutions willing to assume the credit risk. Successful restoration of solvency and

debt restructuring largely depends on the availability of financing for circulating capital.

In international insolvency practice, this mechanism is called "DIP financing" (Debtor-in-Possession financing). It grants the creditor providing the new financing the right to preferential (priority) satisfaction of its claims over other creditors. Articles 114 and 125 of the Law expressly provide for the possibility of raising additional funds through borrowing, which is consistent with the provisions of Article 150 on the priority of current payments.

An effective insolvency system should facilitate the restoration of the debtor's current operations by protecting new financing. Since enterprise recovery often requires new investment, any financing provided under market conditions should: a) have priority in the order of claims satisfaction; b) be protected from the risk of the transaction being challenged in possible subsequent liquidation proceedings.

2. This rule defines the legal status of creditors for current payments, according to which they are not parties to insolvency proceedings and do not have the corresponding procedural rights.

This legal regime is based on the principle that current payments are satisfied on a priority basis, i.e., out of turn (Article 150 of the Law). Therefore, the following restrictions do not apply to claims for debt collection on current payments: a) restrictions related to the moratorium. For example, a moratorium established in connection with the introduction of external management does not apply to current payments (Article 110 of the Law); b) compliance with the order of priority. These claims are satisfied out of turn, as funds become available, without waiting for the repayment of "old" debts included in the register.

3. In accordance with part three of this article, creditors' claims for current payments are satisfied out of turn. If there are multiple current payments, they are satisfied in the order of internal priority established by Article 150 (for example: court costs, then wages, then utility bills, etc.).

In addition, ensuring the payment of current payments is one of the main duties of the judicial manager and is closely related to the powers of the judicial manager established by Articles 85–100 of this Law.

See also: International Commentary, p. 720.

Article 5. Signs of Insolvency

Signs of insolvency are:

temporary insolvency—the inability of a debtor to satisfy the demands of creditors for monetary obligations and (or) to fulfill its obligations for taxes and duties on the date of filing a petition, if the debtor has not fulfilled the relevant obligations within three months from the date of occurrence, and the city-forming enterprise and enterprises equivalent to it have not fulfilled them within six months;

permanent insolvency—if the debtor's liabilities exceed the value of its assets on the date of filing an application with the court and in the reporting period at the beginning of the year in which the application is filed, and in the reporting period at the beginning of the previous year, if the application is filed by the debtor in the first quarter of the year.

The rules provided for in this article shall not apply when considering cases of insolvency in a simplified manner, insolvency of natural persons, as well as of an individual entrepreneur.

The commented article defines the characteristics of insolvency, including temporary insolvency, which is defined as the debtor's inability to fulfill obligations within the established deadlines, and permanent insolvency, which is characterized by the excess of liabilities over the value of assets. It is further stipulated that these provisions do not apply to cases considered under a simplified procedure, or to natural persons or individual entrepreneurs.

1. Part one of this article establishes two independent, mutually complementary criteria, but differing in legal consequences: a) temporary insolvency–a criterion based on the lack of liquidity (cash or cash equivalents); b) permanent insolvency–a condition in which the financial stability of the debtor is impaired in the long term and the volume of liabilities exceeds the value of assets.

1.1.Temporary insolvency is a liquidity criterion determined by the period of non-fulfillment of a debtor's current payment obligations. If a debtor is unable to satisfy creditors' monetary claims or fulfill their obligations on taxes and duties, and the specified period is: a) for general debtors—3 months from the date the obligation arose; b) for city-forming enterprises and equivalent enterprises—6 months from the date the obligation arose, the debtor is considered temporarily insolvent. These periods constitute a "waiting period," after which creditors acquire the right to go to court.

1.2.Permanent insolvency is a balance sheet criterion whereby the total value of the debtor's liabilities exceeds the value of its assets. This criterion is compared over two periods: a) the date of filing the application; b) the beginning of the reporting year (if the application is filed in the first quarter of the year, the comparison is made with the beginning of the previous year). Even if all of the debtor's assets are sold, their funds are insufficient to cover the debt (liabilities). This indicator is important for determining the need for liquidation of the debtor or its financial rehabilitation (rehabilitation). Comparing data as of the application filing date and at the beginning of the year allows us to identify the dynamics of deterioration of the debtor's financial condition.

When applying the criteria for permanent insolvency, particular attention must be paid to the specifics of the reporting periods. Comparison periods set up by legislature may vary depending on the time the application is filed. If the application is filed at the beginning of the second quarter of the year (e.g., April), the value of

liabilities and assets is compared as of the application filing date and as of the beginning of the current year (January 1). In this case, the period under analysis is slightly more than three months. If the application is filed in the first quarter of the year (e.g., March), the indicators are compared as of the application filing date and as of the beginning of the previous year. In this situation, the period under analysis is significantly longer— approximately one year and three months. Therefore, when assessing the indicators of permanent insolvency, differences between reporting dates and comparison periods can significantly affect the conclusions about the debtor's financial position.

A clear definition of the signs of insolvency helps prevent unfounded filing of claims against the debtor and serves as a guide for all interested and involved parties when considering the issue of initiating proceedings.

In this case, in accordance with Article 37 of the Law, the debtor's temporary insolvency is a ground for filing an application to initiate insolvency proceedings and apply one of the solvency restoration procedures. The debtor's permanent insolvency, in turn, is a ground for filing an application to initiate insolvency proceedings, to declare the debtor bankrupt, and initiate liquidation proceedings.

The provisions of this article are general in nature and apply unless otherwise provided by special provisions of the Law governing specific categories of debtors. For example, the grounds for insolvency of city-forming enterprises are established by Article 172 of Chapter 13 of this Law.

2. Part two of this article establishes exceptions to the rules for determining the signs of insolvency (temporary and permanent).

The provisions of this article do not apply to cases considered under the simplified procedure because, in such cases, the debtor is already in liquidation or the impossibility of repaying the debt is obvious due to the lack of assets. In such situations, the three-month waiting period or book value analysis is not required.

The inability of a natural person debtor to satisfy the demands of creditors for monetary obligations and (or) to fulfill obligations to pay taxes and duties in full is recognized as a sign of insolvency of a natural person if the relevant obligations and (or) payment obligations are not fulfilled by the debtor within three months from the date of their occurrence, and also if the claims against the debtor amount to at least two hundred times of the base calculation amount.

If the relevant obligations and (or) payment obligations are not fulfilled by an Individual Entrepreneur (IE) within three months from the date of their occurrence, and also if the claims against the IE amount to at least two hundred times the base calculation amount, then the inability of the IE to satisfy the claims of creditors for monetary obligations and (or) to fulfill obligations to pay taxes and duties is recognized as a sign of his insolvency.

See also: International Commentary, p. 720.

Article 6. Consideration of Insolvency Cases

The insolvency case shall be considered by the court.

An insolvency case in accordance with Article 7 of this Law shall be considered by the court on the basis of an application from a person (body) entitled to apply to the court at the place of state registration of the legal entity debtor, as well as at the place of residence of a natural person and (or) individual entrepreneur.

Cases of insolvency of the debtor are considered by the court in accordance with the rules provided for by the Economic Procedural Code of the Republic of Uzbekistan, taking into account the features established by this Law.

The commented article determines the jurisdiction and venue of insolvency cases, as well as the conditions for initiating insolvency proceedings.

1. In accordance with part one of this Article, insolvency cases are considered exclusively by economic courts in accordance with Articles 25, 27, 210, and 211 of the EPC. This provision means that insolvency proceedings are not resolved administratively, but are subject to consideration by the court. Within the framework of economic proceedings: the court has exclusive jurisdiction to declare the debtor insolvent, as well as to determine rehabilitation or liquidation procedures; judicial review serves as a legal guarantee of ensuring a balance of interests between creditors and the debtor at all stages of the process, as well as regulating the activities of the judicial manager.

This approach is consistent with the classical principles of insolvency law: the assessment of the debtor's financial condition, the application of procedures, the termination of debt and the protection of creditors' rights can only be carried out by the court.

This provision corresponds to part 1 of Article 25 of the EPC, which assigns the jurisdiction of the courts to cases in this category. This provision confirms that insolvency cases are subject to a special judicial procedure, and the special provisions of the Law take precedence over procedural rules. Furthermore, this article is closely linked to Article 7 of the Law, which defines the persons entitled to file an application.

2. Part two of this Article establishes the following: insolvency proceedings shall be initiated on the basis of an application by persons specified in Article 7 of the Law, who have the right to apply to the court for recognition of the debtor as insolvent (the debtor itself, creditors, state tax authorities and the authorized state body); if the applicant is a debtor that is a legal entity, the case shall be considered by the court at the place of its state registration, and if the debtor is a natural person and (or) an IE , at their place of residence.

This rule is consistent with the general jurisdiction rules established by the EPC, according to which cases are considered at the location of the defendant (debtor), not the plaintiff. This means that insolvency cases are always considered in the jurisdiction where the debtor's primary financial interests are located. This arrangement limits creditors' ability to choose a more advantageous jurisdiction (forum shopping).

Regardless of who files an application for insolvency (the debtor, the creditor, or the authorized state body), the case is subject to review by the court at the debtor's place of state registration or at their location (residence). The provisions of Articles 37 and 38 of the EPC on special and contractual jurisdiction do not apply to insolvency cases. Such cases are not classified as claim proceedings, and therefore, the provisions of Article 29 of the EPC on the referral of disputes to arbitration also do not apply.

3. Insolvency cases shall be considered by the court taking into account the specifics established by this Law, in accordance with the rules provided for by the EPC.

The procedural provisions of the Law were developed taking into account the specifics of insolvency cases, which explains their unique character in relation to the EPC. Procedural legal relations arising during insolvency proceedings are governed by the provisions of the Law, and in cases where the relevant relations are not regulated by the Law, the provisions of the EPC apply.

Insolvency cases are conducted based on the general provisions of the EPC, including: the procedure for accepting an application; the timeframe for considering the case; holding court hearings; notification of persons participating in the case; presentation and evaluation of evidence; appeal of judicial decisions and other procedural issues.

However, insolvency procedures contain special rules in the following areas: grounds for initiating proceedings (Article 37); a special procedure for assessing the debtor's financial condition; the formation of a register of creditors' claims (Article 18); the appointment of a judicial manager, his powers and accountability; procedures for rehabilitation, external management and liquidation; the sale of property (Article 224) and other issues.

These provisions are absent from the EPC, so the provisions of the Law apply. This is because insolvency is a complex socio-economic process, and its procedural regulation cannot be limited to general procedural rules.

See also: International Commentary, p. 720.

Article 7. Right to Apply to Court

The right to apply to the court with an application to initiate insolvency proceedings against a debtor in connection with his failure to fulfill monetary obligations belongs to the debtor himself and the creditor.

The debtor and the creditor may indicate in the application for initiating insolvency proceedings the need to apply procedures for restoring the debtor's solvency or liquidation proceedings.

The right to apply to the court with an application to initiate insolvency proceedings against a debtor in connection with the failure to fulfill obligations on taxes and duties is vested in the debtor himself, the state tax service authorities, as well as the authorized state body for insolvency cases and its territorial offices (hereinafter referred to as the authorized state body), in relation to legal entities in the authorized capital (authorized fund) of which there is a state share and (or) debt to the Republic of Uzbekistan on monetary obligations.

The article under comment defines the circle of persons entitled to file an application to declare a debtor insolvent. The provisions of this article establish the scope and limitations of one of the key elements of insolvency law — the subjective right to file an application, which serves as a procedural guarantee for initiating insolvency proceedings.

1. If a debtor has outstanding financial obligations, both the debtor and the creditor have the right to file an application with the court. It should be noted that the debtor and creditor may be a legal entity, a natural person, or an IE. This rule grants both the debtor and creditors the right to file an application to initiate insolvency proceedings, provided that the grounds established by the law for such an application are proven.

If there are signs of insolvency specified in Article 5 of the Law, the debtor has the right to apply to the court with an application of its insolvency.

The debtor's right to file an application is one of the central guarantees of the insolvency system. The law secures the debtor's right to independently initiate the procedure, providing them with a mechanism for maintaining the stability of their business and protecting them from undue pressure. International practice also recognizes that initiating a case by the debtor is one of the most reliable and effective models of insolvency proceedings. Article 8 of the Law establishes the grounds for a debtor to file an application, while Articles 39–40 define the content of the debtor's application and the list of accompanying documents.

The creditor's right of application guarantees the protection of creditors' interests. In the event of default, the creditor may also file an application. This right

helps prevent the risk of the debtor concealing their activities, withdrawing assets, or abusing their obligations.

The criterion of "failure to fulfill monetary obligations" is the fundamental legal requirement of this article. The existence of a particular right is determined by proof of the failure to fulfill the said obligations. This criterion is linked to the content of the creditor's application and the list of documents attached thereto, as stipulated by Articles 41 and 43 of the Law, as the application must be accompanied by documents confirming the grounds for such failure.

2. This provision grants the parties (debtor and creditor) the right to propose a strategic direction for the proceedings already at the court application stage. This ensures a balance between the principle of "judicial activism" and the "dispositiveness" of the parties (the free exercise of their rights).

Right of choice of parties: *restoration*—if the applicant believes the debtor has economic potential, they may ask for pre-trial rehabilitation, judicial rehabilitation, or external management. The judge must assess the debtor's recovery potential (asset availability, market position); *liquidation*—if the debtor is "economically ineffective" (its assets are significantly less than its liabilities, and its operations have ceased), the application may include a requirement to initiate liquidation proceedings.

The parties' indication of a specific procedure in their application is not binding on the court, but is merely a guideline. The judge has the right, regardless of the applicant's wishes, to make a different decision based on the documents available in the case and a financial analysis (for example, to apply liquidation proceedings even if the application calls for restoration of solvency).

Moreover, if the application specifies a specific procedure, the applicant must economically justify the choice of this particular path (for example, through a draft business plan or an inventory of assets).

3. In connection with non-payment of taxes and duties, state tax service authorities may also act as applicants in cases of initiating insolvency proceedings against the debtor.

In accordance with Article 1 of the Law of the Republic of Uzbekistan "On the State Tax Service," state tax service bodies are created to ensure the full and timely collection of taxes and other mandatory payments to the budget. They exercise tax control.

Tax liabilities in an insolvency system are public claims with special legal significance. Therefore, the Law grants tax authorities the right to independently file an application to initiate proceedings. This guarantees the protection of the interests of the State budget.

At the same time, the authorized state body for insolvency cases and its territorial divisions have the right to file an application with the court to declare the debtor insolvent also in relation to legal entities in whose authorized capital (charter capital)

there is a state share, and (or) which have debt on monetary obligations to the Republic of Uzbekistan.

In accordance with Article 29 of the Law, the Agency for State Assets Management of the Republic of Uzbekistan is the authorized state body for insolvency cases. This article also defines its powers.

The participation of an authorized state body facilitates greater oversight of enterprises with state participation in order to protect the state's property interests. With respect to legal entities with state participation in their authorized capital or entities indebted to the state, the state's interests are protected by the authorized body.

This right is an expression of public-law relations based on the protection of the interests of creditors and ensures fiscal control by the state.

See also: International Commentary, p. 721.

Article 8. Grounds for a Debtor's Application to the Court

The debtor has the right to apply to the court with an application to initiate insolvency proceedings if the signs provided for in the first part of Article 5 of this Law are present.

A legal entity debtor applies to the court with an application to initiate insolvency proceedings against it on the basis of a decision of the founders (participants) or the owner of the property or a decision of a body authorized by the owner of the property, unless otherwise provided by this Law.

The commented article defines the cases in which the debtor has the right to apply to the court with an application to initiate insolvency proceedings, that is, it establishes the grounds for filing such an application.

1. Part one of this article provides that the basis for filing a petition is the debtor's inability to fulfill monetary obligations or obligations to pay taxes and duties. Attention should be paid to the indicators of temporary and permanent insolvency established by part one of Article 5 of the Law. These indicators constitute legally objective facts justifying the filing of an application. The debtor's right to file a petition is determined by this objective financial situation.

A debtor's application is their right, but in some cases it may also be an obligation. For example, when it is clear that assets are insufficient to cover debts, such an application allows for a fair and transparent mechanism in relation to creditors.

The presence of signs of insolvency is sufficient ground for filing an application, while supporting documents (accounting and other documents) may be attached to the application.

It should be noted that this rule encourages the principle of "early filing." The debtor has the opportunity to file promptly, without waiting for financial difficulties to worsen. This increases the chances of restoring solvency.

2. The second part of this article establishes a special mandatory rule that must be observed when a legal entity debtor files an application. This rule requires a decision by the relevant governing body. Accordingly, before a legal entity debtor files an application, a corresponding decision must be adopted by the governing body authorized by the founders, the property owner, or the constituent documents, approving such a decision.

Filing an application on behalf of a legal entity depends on a corporate decision. The law stipulates that a resolution of the general meeting of founders (participants), the property owner, or an equivalent body is required to determine the authority to file an application in accordance with the duly registered charter and the legal entity's internal governance structure. This requirement ensures the legality of corporate governance.

If the manager (director) files an application independently, but such a decision was not made by the corporate body, the court may return the application.

In this case, the requirements of Articles 39–40 of the Law regarding the content of the debtor's application and the list of documents attached thereto should be taken into account. The founders (participants) make important decisions affecting the fate of the legal entity during insolvency proceedings.

In the cases specified in part three of Article 7 of the Law, when the case is initiated by tax authorities or an authorized state body, such an internal decision of the legal entity is not required.

If the legal entity's charter expressly provides for the relevant authority, or the founders have adopted a permanent resolution granting such a right, the director may have the right to independently submit an application. However, such circumstances require strict proof and should be taken into account in judicial practice.

See also: International Commentary, p. 722.

Article 9. Obligation of the Debtor, Liquidation Commission, or Liquidator to File an Application with the Court

The manager of a legal entity debtor, a natural person debtor, or an individual entrepreneur is obliged to file an application to initiate insolvency proceedings against the debtor in court in cases where:

the satisfaction of the claims of one or more creditors results in the inability of the debtor to fully fulfill monetary obligations to other creditors and (or) obligations for taxes and duties;

the body authorized to make a decision on the liquidation of the debtor in accordance with the constituent documents of the debtor has made a decision to apply to the court with the debtor's application for liquidation;

foreclosure on the debtor's property may make the debtor's business activities impossible or lead to non-satisfaction of the claims of other creditors.

If during the liquidation of a legal entity, it becomes clear that it is impossible to satisfy creditors' claims in full, the liquidation commission or liquidator is obliged to apply to the court with an application to initiate insolvency proceedings against the debtor.

The application of the debtor, liquidation commission or liquidator must be sent to the court no later than one month from the moment the circumstances specified in parts one and two of this article arise.

The commented article defines cases in which the manager of a legal entity debtor, an individual entrepreneur, or a natural person, as well as the liquidation commission or liquidator, are obligated to file an application with the court to declare the debtor insolvent. While Articles 7 and 8 of the Law establish the right to file an application, Article 9 stipulates the obligation to file such an application.

1. The first part of this article provides a list of grounds under which the manager of a legal entity debtor, as well as an IE and a natural person debtor, are obliged to apply to the court with a debtor's application (however, compliance with the signs of insolvency is not a mandatory condition).

According to the Law, if the following circumstances occur, filing an application ceases to be a right and becomes a legal obligation. This obligation applies to the debtor's manager, the natural person debtor, or the IE.

1.1. Satisfaction of the claims of some creditors causes damage to the interests of other creditors:

In this case, the debtor's liquid assets are limited, and satisfying the claims of one creditor leads to a reduction in the property base, depriving other creditors of the opportunity to receive payments.

The law protects the principle of equality of creditors *(pari passu).* This provision is fully consistent with the principle of preventing preferential satisfaction of the claims of separate creditors.

If the debtor in such a situation does not file an application, his actions may be classified as a violation of the rights of creditors, and may also entail liability of the manager (administrative and (or) civil).

In judicial practice, this is usually associated with situations of insufficient funds in the account, the impossibility of collecting accounts receivable, and the termination of settlement operations.

1.2. If a decision is made to liquidate a legal entity:

If the authorized bodies (founders' meeting, general shareholders' meeting, owner) decide to liquidate a legal entity and it becomes clear that the assets are insufficient to cover all creditors' claims, the liquidation commission is required to apply to the court to initiate insolvency proceedings rather than proceed with a regular liquidation. This requirement is also specifically set forth in the second part of this article.

The purpose of this rule is to ensure the fair satisfaction of creditors' claims in accordance with the statutory order of priority (Article 150). In international corporate law, this approach is considered an insolvency-triggered liquidation filing.

1.3. If foreclosure on property makes business activities impossible or may lead to the impossibility of satisfying the claims of other creditors.

If as a result of the write-off of funds from accounts on the basis of writs of execution, the seizure of fixed assets or inventory balances, a legal person loses the ability to continue operations, an application must be filed with the court.

In such cases, enforcement of the debt negatively impacts fair (proportional) distribution, since within a single enforcement proceeding, a particular creditor gains an advantage. Furthermore, if the debtor ceases operations, the value of the property may further decline, which harms the interests of creditors.

2. The second part of this article provides the grounds on which the liquidation commission or liquidator is obliged to apply to the court with an application to initiate insolvency proceedings against the debtor.

As is known, during the liquidation process, the liquidation commission (liquidator) prepares an interim liquidation balance sheet, which contains information on the assets of the legal entity being liquidated, a list of claims filed by creditors, and the results of their consideration. Based on the analysis of the interim liquidation balance sheet, the liquidation commission (liquidator) may conclude that it is impossible to fully satisfy creditors' claims. If the liquidation commission (liquidator) determines that it is impossible to fully satisfy creditors' claims, it is obligated to file an application with the court to initiate insolvency proceedings against the debtor. In such cases, simplified insolvency procedures, as provided for in Articles 238–242 of the Law apply.

Failure to comply with this obligation may entail civil liability for damage caused to third parties, as well as administrative liability, and in some cases, criminal liability.

3. Part three of this article establishes the period during which the persons specified in parts one and two are required to apply to the court with an application to declare the debtor insolvent.

This deadline is mandatory, meaning it must be observed under any circumstances. It begins on the date of occurrence of the circumstances specified in paragraphs two through four of part one of this article, as well as on the date the liquidation commission determines the impossibility of debt repayment, as specified in part two. In judicial practice, failure to comply with this one-month deadline is often considered the manager's fault. The establishment of this deadline is intended to prevent asset dilution and the violation of creditors' rights.

It should be noted that in the event that an authorized body, a body entitled to make a decision on the liquidation of a debtor in accordance with the constituent documents, or the manager of a private enterprise decides to apply to the court with

an application to initiate insolvency proceedings, the one-month period provided for in part three of this article shall be calculated from the date of such decision.

If other grounds arise for the debtor to apply to the court with an application, when calculating the one-month period, not only the date of the actual establishment of the relevant circumstances is taken into account, but also the moment when the manager of the debtor or the liquidation commission (liquidator), acting reasonably and in good faith, could identify signs of insolvency.

The significance of this rule is that the obligation arises in situations where financial stability is seriously threatened. Failure to file an application may result in the debtor's manager, members of the liquidation commission, or the liquidator being held liable for damages to creditors. This rule serves to ensure equality among creditors, prevent asset loss, and ensure judicial review.

See also: International Commentary, p. 722.

Article 10. Subsidiary Liability of the Debtor's Manager, Members of the Liquidation Commission or the Liquidator for Failure to Fulfill the Obligation to File the Debtor's Application with the Court

Failure by the manager of the debtor, members of the liquidation commission or the liquidator to submit to the court an application for the initiation of insolvency proceedings against the debtor shall entail subsidiary liability of the manager of the debtor, members of the liquidation commission or the liquidator for monetary obligations and (or) obligations for taxes and duties of the debtor that arose after the expiration of the period provided for in part three of Article 9 of this Law.

The commented article provides for subsidiary liability of the debtor's director, as well as members of the liquidation commission or liquidator, for failure to fulfill the obligation to apply to the court with an application to initiate insolvency proceedings against the debtor.

This provision establishes the grounds for subsidiary liability arising in the event of a debtor's failure to file an application to initiate insolvency proceedings. The essence of the provision is that if the debtor's director, members of the liquidation commission, or the liquidator violate the interests of creditors as a result of their failure to fulfill their duties, they may be liable with their personal property.

This provision is aimed at protecting creditors' rights, ensuring the good faith and timely conduct of the debtor's management, the timely initiation of insolvency proceedings, and limiting losses to creditors. By providing this liability, the Law specifies the responsibilities of the debtor's management, members of the liquidation commission, or the liquidator and encourages them to perform properly their duties.

Creditors have the right to file claims against the debtor's manager or members of the liquidation commission (liquidator) if the debtor's monetary obligations and (or) obligations to pay taxes and duties arose after the expiration of the period stipulated in part three of Article 9 of the Law and such claims are filed outside the framework of the liquidation proceedings. The amount of such creditors' claims is determined based on the difference between the total amount of the debtor's obligations to the relevant creditor and the portion satisfied during the insolvency proceedings.

The provisions of this article are interconnected with Article 9 of the Law, according to which the manager of the debtor or an IE (if there are signs of insolvency or insufficient assets to fully satisfy the claims of creditors), as well as the liquidation commission or liquidator (if it is revealed that it is impossible to fully satisfy the claims of creditors during the liquidation of a legal entity) are obliged to apply to the court with an application to initiate insolvency proceedings against the debtor.

In cases provided for in Article 9 of the Law, for violation of the obligation to file an application for the initiation of insolvency proceedings, persons obligated to file such an application shall bear subsidiary liability for the debtor's obligations that arose after the expiration of one month from the occurrence of the circumstances provided for in the said article.

The grounds and procedure for bringing to subsidiary liability are established by Articles 48 and 329 of the CC of the Republic of Uzbekistan, according to which, if the insolvency of a legal entity is caused by the illegal actions of a person entitled to give mandatory instructions (founder, participant, or owner of property), or a person who is part of the governing body of a legal entity, or a person managing its affairs, in the event of insufficient property of a legal entity, such person may be brought to subsidiary liability for its obligations.

Before presenting a claim to a person bearing subsidiary liability (additional liability alongside the principal debtor), the creditor must present the claim to the principal debtor. If the principal debtor refuses to satisfy the creditor's claim or the creditor does not receive a response from the principal debtor within a reasonable time, the claim may be presented to the person bearing subsidiary liability.

Thus, subsidiary liability is realized in cases where the main debtor is unable to fulfill obligations, and collection is directed at the property of an additional (secondary) liable person.

For liability to arise, several legal grounds must simultaneously exist: the debtor must fall under one of the circumstances stipulated by Article 9 of the Law; a one-month period must have elapsed from the date the obligation to file the application arose; after the expiration of this period, new obligations must arise or existing ones must increase; failure to file the application must be one of the main reasons for the emergence of these obligations.

This provision covers not only monetary obligations but also tax and duty arrears. Liability applies only to obligations arising after failure to file a claim or to the extent that existing obligations increase.

The court determines the amount of damage caused by the inaction of a specific person and accordingly establishes the scope of subsidiary liability.

See also: International Commentary, p. 722.

Article 11. Obligation to Submit Information on the Economic Solvency of Enterprises

In the event of detection of signs of insolvency, the state tax service authorities and state statistics authorities are obliged to provide the authorized state body with information on enterprises with a state share in the authorized capital (authorized fund), as well as other information on the economic solvency of enterprises at the request of the authorized state body.

The commented article defines the range of government agencies obligated to provide information to the authorized government agency for insolvency matters and its territorial divisions, and also establishes their corresponding responsibilities. This provision obligates the state tax service and state statistics agencies to exchange information on the economic solvency of enterprises.

This mechanism ensures operational control over the financial condition *of enterprises with a state share in the authorized capital* and also serves to prevent their insolvency and protect state interests.

This rule establishes a legal basis for the exchange of information between several government agencies and enables early monitoring, analysis, and, if necessary, the adoption of appropriate measures during insolvency proceedings. Key aspects include ensuring the economic stability of state-owned enterprises, promptly identifying financial risks in their operations and protecting the state's property interests.

The norm directly defines two bodies as entities providing information:

state tax service authorities—those with information on the enterprise's tax arrears, reporting, wage obligations and current financial indicators;

state statistics bodies—those that maintain official statistical reports of enterprises, production indicators and parameters of economic activity.

These bodies are the most reliable and complete sources of information on the financial condition of the enterprise.

The obligation to provide information, based on the word "obliged" indicates the imperative nature of this obligation. The specified bodies do not have the right to refuse to provide information. Bodies that fail to provide information may be subject to administrative liability (Article 215^1 of the Code of Administrative Responsibility).

The standard provides for a wide range of information regarding the types of information provided: financial indicators, tax arrears, statistical reporting, production indicators, asset and liability dynamics, as well as other information reflecting signs of insolvency.

Regarding the wording "... as well as other information on the economic solvency of enterprises at the request of the authorized state body," the concept of "economic solvency," according to the terminology of the Law, covers such parameters as the ability to fulfill obligations in a timely manner, the stability of income and expenses, liquidity and solvency, the state of assets, and the sufficiency of working capital.

This norm is one of the key legal mechanisms for the exchange of information in the field of insolvency and ensures the possibility of timely monitoring of the financial condition of state-owned enterprises.

CHAPTER 2. RIGHTS, DUTIES, AND RESPONSIBILITIES OF PARTICIPANTS IN INSOLVENCY PROCEEDINGS, MEETINGS OF CREDITORS, PUBLIC ASSOCIATIONS, JUDICIAL MANAGERS

Article 12. Creditors and Creditors' Meeting

During insolvency proceedings, the interests of all creditors are protected by a creditors' meeting or creditors' committee. From the date the court accepts the application for insolvency proceedings against the debtor, creditors are not entitled to approach the debtor individually to satisfy their claims.

All actions taken in relation to the debtor are carried out by the meeting of creditors or the creditors' committee on behalf of the creditors.

A representative of the debtor's employees, a judicial manager, a representative of the founders (participants) of the debtor, or the owner of the debtor's property participate in the meeting of creditors or the creditors' committee without the right to vote.

In cases where a single creditor is involved in the insolvency proceedings, decisions within the exclusive competence of the creditors' meeting are made by this creditor.

The exclusive competence of the meeting of creditors includes the adoption of:

decisions on concluding a settlement agreement;

decisions on the election of members of the creditors' committee, determining its quantitative composition and the early termination of their powers;

decisions on applying to the court with a request to introduce a judicial rehabilitation or external management procedure, extend their term or terminate them early;

decisions on filing a request with the court to declare the debtor bankrupt and initiate liquidation proceedings or to declare the debtor bankrupt and initiate liquidation proceedings without suspending its activities;

decisions on approving the judicial rehabilitation plan and approving the debt repayment schedule;

decisions on approval of the external management plan.

The rules provided for in part five of this article shall not apply when considering cases of insolvency of natural persons.

The decisions provided for in paragraphs four and five of part five of this article, attributed to the exclusive powers of the meeting of creditors, may be taken on the basis of the opinion of the temporary manager on the financial condition of the debtor, provided for in part three of article 86 of this Law.

If a decision is made at a meeting of creditors to declare the debtor bankrupt and initiate liquidation proceedings, the court, taking into account the temporary manager's conclusion on the possibility of restoring the debtor's activities, has the right to introduce one of the procedures for restoring the debtor's solvency.

The organization and conduct of the meeting of creditors is carried out by the judicial manager.

A creditors' meeting is valid if it is attended by creditors with voting rights representing claims amounting to at least two-thirds of the debtor's total monetary obligations and/or tax and duty liabilities. Creditors may also participate in the meeting through their representatives. If a quorum is not met, a repeat creditors' meeting is convened within ten days. This meeting is valid regardless of the number of creditors represented, provided that creditors have been duly notified of the date, time, and place of the meeting.

The creditor has the right to appeal a court decision that violates his rights and legitimate interests, a decision of a meeting of creditors, the actions (inaction) of a judicial manager, as well as the refusal of a judicial manager to satisfy his demands during the period of his insolvency proceedings.

The commented article defines the powers of the meeting of creditors, the procedure for representing the interests of creditors at the meeting of creditors, the conditions for the meeting of creditors to be duly constituted, the exclusive competence of the meeting of creditors, and the procedure for the participation in the meeting of persons involved in the insolvency case. It also provides for safeguarding the interests of creditors within the insolvency case through their exercise of individual or collective actions.

1. The meeting of creditors or the committee of creditors represents the interests of all creditors in the application of insolvency procedures, and from the moment the court accepts for proceedings the application to declare the debtor insolvent, creditors are not entitled to approach the debtor on an individual basis in order to satisfy their claims (except in cases where the Law provides for the submission of claims against the debtor on an individual basis; a corresponding exception is also provided in part four of this article).

From the moment the court accepts the application to commence the insolvency case against the debtor, creditors are not entitled to bring claims against the debtor on an individual basis (that is, they may not seek the performance of separate enforcement actions). In practice, the purpose of this rule is to ensure the fair performance of the debtor's obligations through a collective mechanism.

If a creditor brings a property claim after the insolvency case against the debtor has been commenced, the court must leave the statement of claim without consideration on the basis of paragraph 9 of Article 107 of the EPC (where insolvency proceedings have been commenced against the respondent and the claim brought against it is, in accordance with the law, subject to consideration within the insolvency case).

In accordance with paragraph 2 of part two of Article 34 of the Law of the Republic of Uzbekistan "On the Enforcement of Judicial Acts and Acts of Other Bodies" (where the court commences proceedings on the insolvency case of the debtor, including upon the introduction of observation, judicial rehabilitation, or

external management and/or the extension of the periods of their application), all enforcement actions carried out against the debtor are subject to suspension by the state enforcement officer.

2. Part two of the commented article establishes that the will of creditors with respect to the debtor must be expressed exclusively through the holding of a meeting of creditors or through the committee of creditors.

The meeting of creditors is the supreme body and adopts the most important decisions (the conclusion of a settlement agreement, approval of the external management plan, and the like).

The committee of creditors is a body of ongoing oversight and exercises its powers in the period between meetings of creditors. This serves to ensure the promptness of decision-making and to reduce judicial costs.

3. The representative of the debtor's employees, as well as the representative of the founders (participants) of the debtor and the representative of the owner of the debtor's property, are recognized as participants in the meeting of creditors, are entitled to speak on matters on the agenda of the meeting, but do not have the right to vote. The judicial manager is likewise a participant in the meeting of creditors without the right to vote. The said participants may express their opinion on matters concerning the debtor's financial condition, strategies, measures of influence, and plans.

The representative of the debtor's employees exercises control over the distribution of assets, since the employees' claims for payment of wages are subject to satisfaction as a matter of priority.

The judicial manager participates in the meeting as its organizer but is not entitled to vote, since it is not a creditor. Its task is to ensure the lawfulness of the conduct of the meeting and the exchange of information among its participants.

The representatives of the founders and of the owner of the property participate in the meeting in order to protect the property rights of the debtor, in particular to substantiate the possibilities of restoring its activity (rehabilitation, external management).

The said persons participate in the meeting with the *right of an advisory vote.* They are entitled to:

provide explanations on matters on the agenda of the meeting;

raise objections regarding the lawfulness of the decisions adopted by creditors;

demand that their opinions be entered into the minutes of the meeting of creditors.

However, their participation or opinion does not have a direct effect on the results of voting (for example, on matters of concluding a settlement agreement or transitioning to liquidation proceedings).

This rule is aimed at ensuring a *balance of interests* in the insolvency process. Notwithstanding that the meeting of creditors is a body representing the property interests of creditors, other entities interested in the fate of the debtor (employees,

founders) must also be informed of the course of the process and have the opportunity to express their opinion.

Pursuant to Article 88 of the Law, the non-participation of the said persons in the meeting is not a ground for declaring the decision of the meeting invalid (provided they were duly notified). At the same time, their unjustified exclusion from participation in the meeting or failure to notify them may be regarded as a violation of the principle of transparency of the procedure.

4. A situation is possible in which the debtor has only one creditor. In such a case, the sole creditor independently adopts the decisions falling within the exclusive competence of the meeting of creditors.

This rule constitutes an exception to the principle of the *"will of the majority"* and is aimed at ensuring procedural promptness. If the debtor has only one creditor (or only one person remains in the register of creditors' claims), the possibility of adopting collective decisions is objectively absent. In such a situation, the sole creditor singly exercises all the powers of the meeting of creditors, including the powers falling within its exclusive competence.

The sole creditor alone adopts decisions on matters falling within the exclusive competence in accordance with Article 13 of the Law. Where there is a *sole creditor*, the procedure is carried out not in the form of a classic "meeting" (with discussion and voting) but is formalized by a decision (minutes) of the sole creditor. Such a document has, for the judicial manager and the court, the same legal force as the minutes of a meeting of creditors.

An important aspect of preventing abuse is that, although the sole creditor adopts decisions alone, such decisions must not infringe the rights of other interested persons (for example, the debtor's founders or its employees). When approving a decision of the sole creditor (for example, on concluding a settlement agreement), the court must verify whether it conflicts with the interests of other creditors of the relevant rank (if their claims are not included in the register) or with state interests.

If there are several creditors but only *one creditor* appeared at the meeting (where a quorum is present), this rule does not apply. In that case, the general procedure for holding a meeting of creditors applies. The present rule extends exclusively to cases where, according to the register of creditors' claims, *there is in fact only one creditor.*

5. Part five of the commented article governs matters relating to the *exclusive competence* of the meeting of creditors. The exclusive powers of the meeting of creditors include the adoption of decisions on concluding a settlement agreement, electing the members of the committee of creditors, determining its quantitative composition and the early termination of its powers, as well as on submitting to the court an application for the introduction of judicial rehabilitation or external management and the extension of the periods of their application. In addition, the exclusive competence of the meeting of creditors includes the adoption of a decision to declare the debtor bankrupt and to commence liquidation proceedings.

At the same time, it should be noted that, in accordance with part three of Article 92 of the Law, if the first meeting of creditors has adopted a decision to apply to the court with a request to declare the debtor bankrupt and to open liquidation proceedings, or if none of the decisions of the meeting of creditors has been submitted to the court, the court, upon the request of the founders (participants) of the debtor or the owner of the debtor's property, the authorized state body, or a third party (parties), is entitled to issue a ruling on the introduction of the judicial rehabilitation procedure, provided that the applicants furnish security for the performance of the debtor's obligations in accordance with the debt repayment schedule.

The exclusive competence of the meeting of creditors also includes the adoption of decisions on approving the judicial rehabilitation plan and endorsing the debt repayment schedule, as well as on approving the external management plan. According to part three of Article 100 of the Law, the debt repayment schedule is subject to approval by the court.

"Exclusive competence" means matters on which decisions may be adopted exclusively by the *meeting of creditors.* The delegation of such powers, even to the committee of creditors or the judicial manager, is not permitted. This is a manifestation of the principle of democratic governance, ensuring that the most important decisions are adopted on the basis of the collective will of all creditors.

For a fuller understanding, it is expedient to divide these powers into three main groups:

strategic powers determining the further procedure (transition to judicial rehabilitation, external management, or liquidation proceedings). Creditors adopt a decision on the possibility of "restoring" the enterprise's activity or on the necessity of its "liquidation";

planning-economic powers (approval of the judicial rehabilitation plan or the external management plan). In this case, creditors endorse the economic mechanism for repaying the debt;

institutional (organizational) powers (formation of the committee of creditors). These are aimed at creating an internal management system and simplifying the control mechanism.

Practical aspects of applying this rule: violation of the hierarchy of powers—if the external management plan is approved not by the meeting of creditors but by the committee of creditors, such a decision has no legal force; the mandatory nature of the request—the court is not entitled, on its own initiative (in the absence of a creditors' request), to commence liquidation proceedings, except in particular cases expressly provided by law.

A settlement agreement is a document in which the will of creditors finds its fullest expression. The role of the court in this case is reduced to verifying the lawfulness of the agreement and the absence of any violation of the rights and legitimate interests of other persons.

The significance of this rule lies in the fact that it ensures the determining role of creditors in deciding the further fate of the debtor (creditor control), rather than the dominance of the court. Such an approach corresponds to the principles of a market economy and confines the intervention of the state (represented by the court) in private-law property relations to the framework of maintaining legitimacy.

6. When considering an insolvency case of a natural person, the exclusive competence of the meeting of creditors is determined in accordance with Article 204 of the Law (the exclusive competence of the meeting of creditors in an insolvency case of a natural person). In this connection, the provisions of part five of this article do not apply when considering insolvency cases of natural persons.

This rule reflects the difference between the insolvency procedures of legal entities and natural persons. The institution of insolvency of natural persons has a *social orientation,* and therefore the powers of the meeting of creditors in such cases cannot be as broad as in the procedures applied to legal entities.

Why do these provisions not apply to natural persons?

Difference of procedures: procedures such as "external management" or "judicial rehabilitation" are not applied to natural persons. Instead, the procedures of debt restructuring or declaration of bankruptcy with subsequent realization of property are used.

Social protection: the state (represented by the court) is obliged to ensure the protection of the minimum property and rights of a natural person necessary for that person's normal existence. Therefore, the "exclusive competence" of the meeting of creditors must not restrict a person's right to a dignified existence and other constitutional guarantees.

The existence of this exception attests that the legislator takes into account the differing legal nature of the subjects. The economic fate of a natural person must not depend exclusively on the will of creditors but must be determined with observance of a fair balance ensured by the court, as well as of the special social guarantees provided by law.

7. In accordance with part seven of the commented article, for the adoption of the said decisions by the meeting of creditors, an opinion of the temporary manager on the debtor's financial condition may be obtained. This opinion is likewise subject to consideration by the court.

The present rule establishes that the most important decisions of the meeting of creditors must be based not only on the will of interested persons but also on an *objective economic assessment.*

The two decisions falling within the exclusive competence of the meeting of creditors—*declaring the debtor bankrupt* (liquidation) or, conversely, initiating a *recovery* procedure (rehabilitation/external management)—may be adopted only on the basis of the opinion of a professional specialist, that is, the temporary manager. This performs the function of a *"filter,"* preventing possible abuses by creditors or their adoption of erroneous decisions regarding the debtor's financial condition.

According to part three of Article 86 of the Law, based on the results of the financial analysis, the temporary manager prepares one of the following opinions on the debtor's financial condition: on the absence of signs of insolvency; where signs of temporary insolvency are identified—on the existence of grounds for introducing one of the solvency-restoration procedures; where signs of sustained insolvency are identified—on the existence or absence of the possibility of restoring the debtor's solvency.

When preparing the opinion, the temporary manager analyzes: the possibility of restoring the debtor's solvency; its property position (the sufficiency of assets); the causes of the insolvency (including the presence of signs of intentionally bringing about insolvency).

When considering a request of the meeting of creditors, the judge must verify whether the opinion of the temporary manager is attached to the minutes of the meeting. If the opinion contains a conclusion on the possibility of the financial recovery of the enterprise, whereas the creditors insist on its liquidation, the court should more thoroughly assess the economic soundness of the creditors' decision.

In so doing, the temporary manager gives the opinion as an independent and impartial person. Such an opinion serves as a kind of "roadmap" for both the creditors and the debtor.

This rule ensures the implementation of the principle of the *economic feasibility* of insolvency procedures. It promotes the maintenance of a balance between the subjective interests of creditors (for example, an interest in the speediest realization of the debtor's property) and the socio-economic interests connected with preserving the enterprise and the possibility of restoring its activity.

8. If the possibility of restoring the debtor's solvency is confirmed by the opinion of the temporary manager, the court is entitled to introduce one of the solvency-restoration procedures even where the creditors have adopted a decision to apply to the court with a request to declare the debtor bankrupt and to open liquidation proceedings.

The conceptual essence of this rule lies in the manifestation of the *"active role of the court."* It shows that, in insolvency cases, the court is not confined to the function of a kind of "notary" merely attesting to the will of creditors. In this case, a balance is ensured between the principle of "party autonomy" (the will of the parties) and the "public interests" connected with preserving the enterprise and jobs.

As regards the *distribution of powers between creditors and the court,* notwithstanding that the present article provides for the performance of the corresponding actions on behalf of creditors, this rule grants the court the right to disagree with the creditors' decision to "liquidate" the debtor and to apply the procedures of its financial recovery (judicial rehabilitation or external management).

In so doing, the following criteria are of principal significance:

economic priority: if the temporary manager's analysis confirms the viability of the enterprise, the court is entitled to give preference to restoring its activity rather

than to the creditors' decision aimed exclusively at the speediest realization of the debtor's property;

the status of the opinion: the opinion of the temporary manager is not binding on the court, but it constitutes one of the most important pieces of evidence in the case. In assessing it, the court is obliged to investigate the debtor's financial indicators comprehensively.

In refusing to grant the request of the meeting of creditors "to declare the debtor bankrupt" and introducing a financial recovery procedure, the court must set out detailed reasoning for its decision, indicating the reasons for disagreeing with the creditors' position and the economic factors confirming the validity of the temporary manager's conclusions.

When introducing a solvency-restoration procedure, the court must satisfy itself that the debtor's financial position can indeed be improved and that such a procedure will not lead to a substantial infringement of creditors' rights (for example, to a further increase in the debt).

This rule attests that the legislation of the Republic of Uzbekistan gives priority to the *"rehabilitative orientation"* of insolvency procedures (pro-rehabilitation approach). The state has an interest not in the mass liquidation of enterprises but in restoring their solvency and preserving them in the economy. This is an important legal mechanism ensuring stability in market relations.

9. All measures connected with the organization of the meeting of creditors, beginning with the publication of the corresponding announcement in the mass media, as well as all actions connected with the holding of the meeting of creditors, are carried out by the *judicial manager.*

The judicial manager participates in the meeting of creditors not only as an executor but also as an *independent professional entity.* Its principal task is the creation of technical and organizational-legal conditions for the free and lawful expression of the will of creditors.

The following *functions* of the judicial manager should be singled out separately:

notification: timely informing of all known creditors, representatives of the debtor, and authorized bodies of the time and place of the meeting within the periods established by law (usually 10 days in advance), in person or through the mass media;

registration: verifying the powers (powers of attorney) of the creditors who have arrived and registering them;

determination of the quorum: confirming that the meeting is competent to adopt decisions (by the number of votes);

keeping the minutes: recording the opinions expressed and the results of voting, as well as submitting the minutes to the court within 2 days.

The judicial manager does not have the right to vote at the meeting. Its function is to provide objective information on matters on the agenda. If the judicial manager, pursuing the interests of some creditor, falsifies the minutes of the meeting or violates

the notification procedure, this constitutes a ground for terminating its powers and compensating the harm caused.

When the court verifies the lawfulness of a decision of the meeting of creditors, first and foremost the *correctness of the judicial manager's performance of the organizational procedures* is assessed. Violation of the notification procedure is one of the most frequent grounds for setting aside decisions of the meeting.

Imposing on the judicial manager the duty to organize the meeting serves to reduce the conflict of interests between creditors and the debtor. This is a guarantee of the *institutional impartiality* of the process.

10. This paragraph of the present article contains requirements as to the quorum of the meeting of creditors. The meeting is considered duly constituted if it is attended by creditors who have the right to vote and who bring claims amounting to not less than two-thirds of the total sum of the debtor's monetary obligations and/or taxes and duties included in the register of creditors' claims (that is, its decisions have legal force).

In the absence of a quorum, within ten days a repeat meeting of creditors is convened, which is considered duly constituted regardless of the number of creditors present, provided that they have been duly notified of the date, time and place of the meeting. This article defines the role of the meeting of creditors, the procedure for its conduct and its tasks and functions.

A quorum is the minimum number of votes necessary for the meeting of creditors to be competent to adopt decisions. In the legislation, the quorum is determined not by the number of creditors but by the sum of the claims belonging to them (the number of votes). The principal criterion is the participation of creditors whose claims amount to not less than two-thirds of the total sum of obligations included in the register and conferring the right to vote. The purpose of this is to prevent the adoption of important decisions without the participation of major creditors and to protect the interests of the majority.

11. This rule constitutes one of the most important *mechanisms of checks and balances, ensuring the lawfulness of the insolvency procedure.* Since insolvency cases are complex processes involving many interested parties (the debtor, creditors of various ranks, state bodies), each participant is guaranteed judicial protection of its rights.

In so doing, three main avenues along which a complaint may be lodged should be singled out separately:

appealing a judicial act: a creditor may appeal rulings and decisions of the court (for example, on the refusal to include a claim in the register or on the termination of the procedure) to a higher instance;

appealing decisions of the meeting of creditors: if a decision adopted by a majority of votes violates the rights of the minority of creditors or is adopted in violation of the law (for example, in the absence of a quorum), such a decision may be declared invalid in judicial proceedings;

the actions or inaction of the judicial manager: this is the most widespread type of complaint, which is lodged in cases of errors in the realization of property, an unjustified increase in expenses, the concealment of information, as well as an unjustified refusal by the judicial manager to include a creditor's claim in the register or to satisfy it.

When considering a complaint, the court is obliged to verify the presence of two conditions: *the fact of a violation of law*—whether the action or decision conflicts with the norms of legislation; *a violation of interests*—whether real harm has been caused to the property or procedural rights of the applicant (for example, whether its possibility of voting has been restricted or the sum of funds to be received has been reduced).

The lodging of a complaint does not suspend the general course of the procedure unless the court issues a separate ruling on suspension. This is important for preventing the unjustified protraction of the insolvency procedure.

This rule is an expression of the constitutional principle of the *"right to judicial protection"* in the sphere of insolvency. It does not permit a "monopoly" of the judicial manager and the majority of creditors, guaranteeing that the voice and interest of each creditor are under the protection of the law.

The said complaints are considered in the procedure established by Article 60 of the present Law.

See also: International Commentary, p. 724.

Article 13. Groups of Homogeneous Creditors

Homogeneous creditors are divided into the following groups:

the first—creditors for the debtor's obligations secured by pledge;

the second—creditors for claims against the debtor arising from contracts not secured by pledge, contracts for supply, performance of work and provision of services, as well as from compulsory insurance contracts and bank loan insurance;

the third is creditors for taxes and duties;

the fourth—creditors for wages and compensation payments under employment contracts, writs of execution providing for the transfer or issuance of funds from an account to satisfy claims for the collection of alimony, for the payment of remuneration under copyright agreements, ensuring the equal fulfillment of the debtor's obligations for payments and claims arising from labor and equivalent legal relationships, as well as claims of citizens for compensation for damage caused to their property as a result of a criminal or administrative offense;

fifth—the owners of the debtor's shares for accrued dividends.

The right to vote at a meeting of creditors when considering issues specified in paragraphs two and three of part five of Article 12 of this Law shall be vested in creditors of the first, second and third groups.

The right to vote at a meeting of creditors when considering issues specified in paragraphs four, five, six and seven of part five of Article 12 of this Law shall be enjoyed by creditors of the first and second groups.

A creditor has the right to vote at a meeting of creditors if he is the holder of recognized claims against the debtor.

The commented article establishes the legal status of creditors in insolvency relations by dividing them into groups, determines the degree of priority of their interests, and the procedure for participating in the decision-making process at the meeting of creditors.

1. The first part of this article distributes creditors into five distinct groups depending on the nature of the obligations and the degree of their security. The *legal significance* of such a classification consists in the following:

a) *ensuring a balance of interests*—in the insolvency process, the interests of creditors may come into conflict (for example, a secured creditor and an ordinary supplier). The legislator, by distributing creditors into groups, creates for each category a mechanism of "separate voting and decision-making." This prevents the infringement of the rights of "small" creditors by "large" ones;

b) *the principle of ranking and priority*—the distribution into groups is closely connected with the order of satisfaction of claims: the first group (secured creditors)—their claims are privileged and are satisfied at the expense of the realization of the pledged property as a matter of first priority. Insolvency legislation must take into account the agreements concluded between creditors and the debtor before the onset of insolvency; in so doing, the rules governing creditors' claims and the recognition of separate transactions as invalid must be observed. It is also aimed at preserving the status of secured creditors with a view to minimizing the costs connected with obtaining security. The second group (contractual creditors): the main part of economic relations. For them, the voting procedure and the terms of the settlement agreement are important. Creditors whose claims arise from civil-law contracts with the debtor are not secured by a pledge (that is, the creditor does not have the right of preferential satisfaction at the expense of specific property) and include the supply of goods, the performance of works, the rendering of services, as well as insurance obligations.

Counterparties under contracts of supply, works, and the rendering of services: for example, an enterprise acquired goods but did not pay for them or ordered services (transport, security, IT support) and remained a debtor.

The second group follows after the first and also includes judicial and tax costs (as well as current payments). Until the claims of the first rank are satisfied, the

creditors of the second rank do not receive payments. At the same time, the creditors of the second group have a higher priority compared with the third and fourth ranks (for example, compared with wages or social obligations). This may seem unexpected; however, the matter concerns different types of obligations and the law may distribute priorities differently. This group represents economic counterparties without security by a pledge, and the law assigns them to the priority category, providing a higher status compared with social and administrative obligations. This reflects the need to protect the debtor's business partners who participate in its economic activity.

The fiscal group (third): obligations to the state budget. The creditors of the third group are taxes and other obligatory payments payable to the budget by legal and natural persons.

The social group (fourth): wages, alimony, and compensation for harm to health—this group possesses a high degree of social protection. It includes the claims of natural persons who have suffered from offenses: employees, authors, and citizens whose rights are subject to protection. The legislator places them above most other creditors (for example, commercial banks or suppliers).

The fourth group includes:

the debtor's employees: claims for unpaid wages and compensations provided by the employment contract (for example, for unused leave, dismissal, and others);

claims under enforcement documents, if they concern alimony (for children, parents, and others), authors' remuneration (writers, composers, artists), as well as other payments connected with labor relations;

citizens who have suffered from crimes or administrative offenses, if property damage has been caused and confirmed by a corresponding decision (for example, of a court). These persons also have priority, since their rights are protected by the state.

All creditors are divided into ranks, and claims are satisfied strictly in the established sequence. Until the claims of the first, second, and third ranks are satisfied, the fourth rank does not receive payments. After the satisfaction of the claims of the fourth rank, the fifth may follow (for example, creditors under commercial contracts and the like).

Wage arrears must not be equated with the claims of suppliers or banks—they are granted priority. Authors' remuneration, alimony, and judicial compensation likewise possess priority. This rule protects social rights and is aimed at mitigating the consequences of insolvency for natural persons.

The fourth group reflects the social orientation of the legislation: vulnerable categories—employees, children, authors, victims—possess priority. It ensures a fair distribution of the debtor's property, taking into account not only commercial interests but also the protection of human rights.

The fifth group (shareholders): the last rank of claims, situated on the boundary between a creditor and an owner. It comprises persons with the lowest degree of

priority, where an enterprise or organization is in a financially unstable condition and in the process of repaying debt.

These are shareholders (natural persons or legal entities who are owed accrued but unpaid dividends). They receive compensation last in the distribution of the company's property and may receive no payments at all if the claims of the preceding groups (1–4) are not fully satisfied.

The reason that the fifth group is last is that shareholders are the owners of the company and share the entrepreneurial risks. They are not creditors in the classic sense but investors. Therefore, only after the satisfaction of all other obligations (wages, taxes, loans, etc.) does their turn arrive.

c) *features of the voting procedure:* when approving a solvency-restoration plan or a settlement agreement, votes are counted separately within each group. If one group is against, but the plan better protects its interests compared with the alternatives, the court may apply the mechanism of "compulsory approval" (cram-down).

d) *practical significance:* the judicial manager is obliged to distribute each creditor strictly by groups when maintaining the register. The erroneous assignment to a group affects the right to vote and the order of satisfaction of claims and may lead to the setting aside of the judicial decision.

2. This rule establishes the principle of "interest and degree of influence" in the adoption of decisions at the meeting of creditors. According to it, on the most important strategic matters, the right to vote is granted only to the creditors of the first, second and third groups who hold a "real" economic claim.

The creditors of the first, second, and third groups have the right to vote in the adoption of decisions on the following matters:

the conclusion of a settlement agreement;

the election of the members of the committee of creditors, the determination of its numerical composition and the early termination of their powers.

3. The creditors of the first and second groups have the right to vote in the adoption of decisions on the following matters: applying to the court with a request for the introduction of the judicial rehabilitation or external management procedure, for their extension or early termination; applying to the court with a request to commence proceedings to declare the debtor bankrupt and to initiate liquidation proceedings, as well as to commence bankruptcy proceedings with the continuation of the debtor's activity; approving the judicial rehabilitation plan and endorsing the debt repayment schedule; approving the external management plan.

Accordingly, the remaining creditors do not have the right to vote in the adoption of decisions on the said matters.

Why then are the fourth and fifth groups excluded from voting? The fourth group (social obligations): claims for wages and alimony are of a priority nature by law. Their satisfaction must be carried out as a matter of first priority regardless of the restoration plan. The absence of a right to vote for them is explained by the fact that

their claims are of a protected, privileged nature and are not subject to reduction or revision.

The fifth group (shareholders): they are the owners of the business. In a situation of insolvency, the assets of the enterprise are directed first and foremost to repaying external obligations. Since shareholders claim only residual assets, their participation in voting could create a conflict of interests.

The creditors of the first (secured) and second (contractual) groups are the principal "economic drivers" of the process. They are economic entities whose funds are exposed to commercial risk. Limiting the role of state bodies (the third group): the tax authorities represent the public interest and their claims are strictly defined by law. Matters such as the conclusion of a settlement agreement or the selection of managers belong to the sphere of economic management, where the participation of the state may not correspond to market principles.

Narrowing the circle of persons adopting decisions allows the most interested creditors to manage the procedure promptly.

When verifying the lawfulness of the minutes of the meeting of creditors and the decisions adopted, the judge must pay attention to the following: the quorum must be calculated on the basis of the sum of the claims of creditors having the right to vote (groups 1, 2, and 3); the creditors of the 4th and 5th groups may participate in the meeting as observers and express their opinion, but their votes "for" or "against" do not affect the final decision.

This rule is based on the "business judgment" principle, according to which the fate of saving or liquidating the enterprise is decided by those creditors who bear real economic risk in the process.

4. A creditor, if its claims against the debtor are recognized and included in the register of creditors' claims, has the right to participate in the meeting of creditors with the right to vote.

For participation in voting at the meeting of creditors, the mere fact of the existence of a debt is not sufficient. The claim must necessarily be recognized. This means that it must be verified by the judicial manager, not contested and included in the register of creditors' claims or confirmed by a judicial act that has entered into legal force.

This rule recognizes the priority of claims established before the onset of insolvency and as a rule, these priorities are preserved in the course of the consideration of the bankruptcy case.

The meeting of creditors is considered duly constituted if it is attended by creditors who have the right to vote and who represent not less than two-thirds of the total sum of the claims under the monetary obligations and/or obligatory payments of the debtor. Creditors may participate in the meeting through their representatives. In the absence of a quorum, within ten days a repeat meeting of creditors is convened, which is considered duly constituted regardless of the number of creditors present, provided that there is due notification of the date, time and place of its conduct.

The judicial manager, when forming the register, is obliged to verify the soundness of each claim. If the manager does not recognize a claim, the creditor is deprived of the right to vote at the meeting. In such a case, the creditor may restore its right to vote only through the inclusion of the claim in the register by judicial procedure.

When courts consider applications to declare decisions of the meeting of creditors invalid, it is necessary to verify:

whether the claim of the voting person was included in the register at the moment of voting;

if the claim was “conditional” or contested, in what manner the granting of the right to vote to it affected the ratio of votes of other creditors;

since the sum of the claim determines the number of votes, the correctness of the recognized sum is a key factor affecting the quorum and the outcome of the decision.

This rule is based on the principle of “legal certainty.” In other words, the right to participate in management decisions is granted only to the holder of an obligation whose amount and basis do not raise doubts (a recognized claim). This impedes the inclusion in the process of “fictitious” creditors acting in collusion with the debtor and their influence on the results of voting.

The creditor’s right to vote is directly connected with the recognition of its substantive-law claim. A creditor not included in the register, even where a contract exists, cannot participate in the adoption of decisions at the meeting.

See also: International Commentary, p. 725.

Article 14. Notification of a Meeting of Creditors

Proper notification shall mean sending to the creditor, the relevant authorized body, and also to another person who, in accordance with Article 12 of this Law, has the right to participate in the meeting of creditors, a notice of the meeting of creditors by postal service no later than two weeks before the date of the meeting of creditors or sending by another means that ensures the receipt of such notice no less than five days before the date of the meeting of creditors.

If it is impossible to identify the information necessary for personal notification of a creditor or other person entitled to participate in a meeting of creditors, or if there are other circumstances that preclude the possibility of personal notification of the said persons, the publication of a notice of the holding of a meeting of creditors in the manner determined by the Cabinet of Ministers of the Republic of Uzbekistan and in the mass media determined by it shall be deemed proper notification of such persons.

The notice of a meeting of creditors must contain the following information:

name and location of the legal entity debtor;

date, time and place of the meeting of creditors;

agenda of the meeting of creditors;

the procedure for familiarization with materials subject to consideration by the meeting of creditors;

procedure for registering participants in a meeting of creditors;

last name, first name, patronymic and place of residence of the debtor—individual entrepreneur or natural person.

The judicial manager must provide creditors with the opportunity to review the materials to be considered at the creditors' meeting at least three working days before the date of the meeting.

The commented article establishes the procedure for notifying participants of the holding of a meeting of creditors, including the time periods, the methods of notification and the requirements as to the content of such notification.

1. All participants in the meeting of creditors, including both creditors having the right to vote and those not having such a right but entitled to participate in the meeting in accordance with part three of Article 12 of the Law are subject to notification of the holding of the meeting.

This rule provides for three methods of notifying the said persons. *First,* sending the notification by postal service not less than two weeks before the date of the meeting, with proof of the dispatch of such notification. A postal receipt or a notice of delivery serves as confirmation of dispatch.

Second, sending the notification by another method ensuring its receipt not less than five days before the date of the meeting. This implies the use of the telephone, fax, electronic mail, courier delivery and other methods, however, the key condition is the guaranteed receipt of the notification.

Thus, both dispatch by post not less than two weeks before the meeting and the sending of the notification by another method ensuring its receipt not less than five days before the holding of the meeting (that is, delivery or handing over) are considered due notification. In practice, the judicial manager often hands over notifications in person to creditors located within the same locality.

When verifying the lawfulness of the minutes of the meeting of creditors, the court must require the following evidence: postal receipts and inventories of enclosures; in the case of electronic notification—technical data confirming its receipt.

If the notification procedure is violated and this has affected the quorum or the results of voting, the decisions of such a meeting are declared invalid.

This rule reflects the principle of "a fair trial and equal opportunities." It prevents possible abuse by the judicial manager aimed at excluding undesirable creditors from the process. Clear notification periods provide creditors with sufficient time to study the agenda and prepare a well-grounded position.

“Due notification” is not merely a technical action but a legal mechanism for protecting the property rights of creditors. The failure to notify a creditor and its absence from the meeting is regarded as a material violation of its procedural rights.

2. A third method of notification of the holding of a meeting of creditors is provided in part two of the present article and consists in the publication of information in official publications in the procedure established by the Cabinet of Ministers. Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 160 of 11 June 2009, “On Measures to Streamline the Publication of Information Provided by the Law of the Republic of Uzbekistan ‘On Bankruptcy’” determined that the official mass media in which such information is subject to publication are the economic newspaper Biznes-Daily “Birzha” and/or the official website of the State Assets Management Agency.

It should be taken into account that notification of the holding of a meeting of creditors by means of publication in the official mass media is carried out only in cases where it is impossible to determine the data necessary for the individual notification of a creditor or another person entitled to participate in the meeting, or where there is no possibility of their personal notification for other reasons.

This rule introduces a mechanism of “public notice” for situations where individual notification is impossible, ensuring the continuity of the procedure. At the same time, the legislator partially places on the creditor the duty to independently monitor official sources of information. Such an approach prevents the protraction of the insolvency procedure and maintains its dynamism.

Notification through the mass media is a “reserve” method and is applied only where personal notification is impossible. If the judicial manager, knowing the exact address of a creditor, confines itself to publication in a newspaper, this may be recognized as improper notification and entail the declaration of the decisions of the meeting as invalid.

3. Part three of the present article establishes the mandatory requirements as to the content of the notification of the holding of a meeting of creditors. This rule guarantees the minimum volume of information necessary for creditors to exercise their rights. The requirements as to the content of the notification are not merely of a technical nature but are a condition for ensuring the lawfulness of the decisions adopted at the meeting.

When considering the minutes of the meeting of creditors, the court must verify the presence of all six mandatory items of information in the notification. The absence of any of the requisites may be regarded as a restriction of the creditor’s rights and may call into question the results of the meeting.

4. In accordance with part four of the present article, creditors must have the opportunity to familiarize themselves with the case materials not less than three working days before the date of the holding of the meeting of creditors. This period is presumed to be sufficient for creditors to study and assess possible further actions with respect to the debtor.

This rule is aimed at ensuring the adoption of well-grounded decisions (informed decision) at the meeting of creditors. A creditor must act not merely as a subject of voting but as a participant capable of analyzing the debtor's financial condition.

The significance of the "three working days" period lies in the fact that the legislator established precisely working days and not calendar days. This provides creditors (especially lawyers and accountants of legal entities) with real time for the detailed study of the documents submitted (for example, complex rehabilitation plans or inventory acts), consultations with management and the formation of a position for voting.

The judicial manager is obliged not only to provide time for familiarization with the materials but also to ensure the conditions for this. This includes: the availability of the documents in a particular place (for example, at the manager's office or on the debtor's premises); the provision of the possibility to make copies or photograph the documents; and, in keeping with modern requirements, the possibility of sending the materials in electronic form (this is not obligatory but is recommended).

If the judicial manager provides the materials on the day of the meeting or one day before it, this is a gross violation of the law. In such a case, the creditor is entitled to demand the postponement of the meeting, and if the meeting nonetheless took place and a decision was adopted, the court may declare it invalid on the basis of "the violation of the creditor's right to prepare."

This rule is based on the principle of "good faith and transparency." The concealment of materials or the deliberate shortening of the familiarization period undermines the objectivity of the procedure. The familiarization of creditors with the materials also enables them to exercise control over the manager's activity.

The present article promotes the observance of the procedural rights of each creditor to due notification and participation in the insolvency case on matters that may affect its rights.

See also: International Commentary, p. 725.

Article 15. Procedure for Convening a Meeting of Creditors

A meeting of creditors shall be convened at the initiative of the judicial manager or at the request of the creditors' committee or at the request of creditors whose claims for monetary obligations and (or) obligations for taxes and duties constitute at least one-third of the total amount of claims for monetary obligations and (or) obligations for taxes and duties entered into the register of creditors' claims, or at the initiative of one-third of the total number of creditors.

The request to hold a meeting of creditors must contain the matters to be included in the agenda of the meeting of creditors.

The judicial manager shall not have the right to make changes to the wording of the matters on the agenda of the meeting of creditors convened at

the request of the creditors' committee or creditors specified in the first part of this article.

A meeting of creditors, at the request of the creditors' committee or creditors specified in the first part of this article, shall be convened by the judicial manager no later than thirty days from the date of filing the relevant application with the judicial manager.

The creditors' meeting is held at the debtor's location (residence), unless otherwise established by the creditors' meeting or creditors' committee. If it is impossible to hold the first creditors' meeting at the debtor's location (residence), the venue of the first creditors' meeting is determined by the judicial manager.

The commented article establishes the procedure for convening a meeting of creditors. This rule defines the range of subjects authorized to convene a meeting, as well as the limits of their powers (quotas). In this case, the legislator combines two criteria—the size of the monetary claims and the number of persons entitled to initiate the convening of a meeting.

1. The subjects specified in part one of the present article are entitled to take the initiative to hold a meeting of creditors, namely: a) the judicial manager; b) the committee of creditors; c) creditors whose claims for monetary obligations and/or taxes and duties included in the register of creditors' claims amount to not less than one-third of the total sum of the claims for monetary obligations and/or taxes and duties included in the register of creditors' claims; d) creditors constituting not less than one-third of the total number of creditors included in the register.

Thus, not all persons entitled to participate in the meeting of creditors in accordance with Article 12 of the Law possess the right to demand the convening of a meeting of creditors.

All of the above subjects (with the exception of the judicial manager) exercise their right to initiate the holding of a meeting of creditors by applying to the judicial manager. In the procedural sense, the concepts of "at the initiative" and "at the request" do not differ in this case.

The judicial manager is not entitled to refuse to convene a meeting of creditors upon the demand of creditors holding the quotas established by this rule. If the manager unjustifiably evades convening the meeting, the creditors are entitled to apply to the court with a demand to declare its inaction unlawful, as well as to raise the question of holding it liable or of its replacement.

2. When applying to the judicial manager with a demand to hold a meeting of creditors, the committee of creditors or the creditors entitled to demand the convening of a meeting must formulate the matters to be considered at the meeting of creditors. If the demand does not specify the matters to be included on the agenda of the meeting of creditors, the judicial manager is entitled to return such a demand for the elimination of deficiencies and to refuse to convene the meeting of creditors.

In so doing, in the notice of refusal to convene the meeting of creditors, the judicial manager is obliged to indicate that the ground for the refusal is non-compliance with the requirements of part two of Article 15 of the Law.

3. The Law prohibits the judicial manager from making changes to the wording of the matter on the agenda of a meeting of creditors convened upon the demand of the committee of creditors or the creditors specified in part one of the present article. At the same time, the Law does not prohibit supplementing the agenda with matters whose consideration is required by law or which are subject to coordination or discussion at the meeting of creditors.

This rule is of fundamental importance for ensuring the objectivity of the procedure. In practice, situations not infrequently arise where creditors initiate the convening of a meeting in connection with dissatisfaction with the activity of the judicial manager or to consider the matter of its replacement. If the manager were granted the right to change the agenda, it could "soften" matters inconvenient for itself, alter their content, or exclude them from consideration altogether. The prohibition established is aimed at preventing such abuses.

In so doing, the judicial manager acts exclusively as the organizer (technical executor) of the meeting. It is obliged to include in the notice of the holding of the meeting the matters in the form in which they were proposed by the creditors, as well as to reflect them in the voting ballots without any changes.

When studying the minutes of meetings of creditors, courts should compare the creditors' initial demand to convene the meeting with the final agenda reflected in the minutes. If it is established that the judicial manager changed the wording of a matter (for example, replaced the matter "on the removal of the judicial manager" with the matter "on the report of the judicial manager"), such actions must be recognized as unlawful, and the decisions adopted on the corresponding matter may be declared invalid.

4. In accordance with part four of the present article, the judicial manager is obliged to convene a meeting of creditors within thirty days from the day of receipt of the demand for its holding. This rule is aimed at *ensuring compliance with procedural time periods* and the accountability of the judicial manager.

The thirty-day period established by the legislator constitutes the maximum permissible interval of time between the expression of the creditors' will and the adoption of the corresponding managerial decision.

The running of the period begins from the day the judicial manager receives the corresponding application of the creditors (or from the day of its arrival by post). Within the said 30 days, not only must the notice of the holding of the meeting be sent, but the meeting itself must also actually be held. This requires prompt action from the judicial manager, since, taking into account the necessity of sending the notice not less than two weeks before the date of the meeting, only 10–15 days remain for resolving organizational matters. This period is not of a recommendatory but of

a mandatory nature. The workload or illness of the judicial manager, or other personal circumstances are not grounds for extending this period.

If the judicial manager has not convened a meeting of creditors within 30 days, the creditors are entitled to appeal its inaction by judicial procedure. If, as a result of the violation of the said period and the subsequent holding of the meeting, decisions were adopted that caused losses to creditors, this may entail the property liability of the judicial manager.

5. Part five of the present article determines the place of the holding of a meeting of creditors and the procedure for its determination. This rule is aimed at ensuring the openness of the procedure and the convenience of the participation of creditors.

According to this rule, a meeting of creditors is held at the location of the debtor (with respect to an individual entrepreneur—the place of residence), unless otherwise established by the meeting of creditors or the committee of creditors.

With respect to the first meeting of creditors, the legislation provides for its holding at the location of the debtor (the debtor's place of residence). If the holding of the first meeting of creditors at the location of the debtor (place of residence) is for one reason or another impossible, the place of the holding of the first meeting is determined by the judicial manager.

At the time of the first meeting, the collective will of creditors has not yet been formed. Therefore, if holding the meeting at the debtor's address is impossible (for example, the premises are sealed, are in an emergency condition, or the enterprise is in fact not functioning), the right to determine the place of the holding of the meeting is granted to the judicial manager.

The legislator proceeds from the principle of territorial "proximity to the debtor" when choosing the place of the holding of the meeting. This allows creditors not only to participate in the meeting but also to familiarize themselves with the actual condition of the debtor, its assets and its production capacities.

The meeting of creditors or the committee of creditors may decide to hold the meeting in another place. For example, if the majority of creditors are located in the city of Tashkent while the debtor enterprise is located in a remote region, holding the meeting in Tashkent may be recognized as more expedient.

In view of modern trends, remote (online) participation in meetings is becoming increasingly widespread. Taking into account the established law-enforcement practice and digitalization processes, the notion of "venue" does not preclude the use of videoconferencing systems (if this is provided by a decision of the meeting of creditors). At the same time, the notice of the holding of the meeting must in any event indicate the physical address of the holding.

If the place of the holding of the meeting is, without sufficient grounds, determined in such a way that it substantially impedes the participation of creditors and leads to the absence of a quorum or the impossibility of participation of important creditors, the court may declare the decisions of such a meeting invalid.

See also: International Commentary, p. 725.

Article 16. Minutes of the Meeting of Creditors

Minutes are kept at the meeting of creditors.

The following must be attached to the minutes of the creditors' meeting:

register of creditors' claims on the date of the meeting of creditors;

documents confirming the authority of the creditors' representatives;

registration sheets of participants in the meeting of creditors;

materials presented to the participants of the meeting of creditors for review and/or approval;

evidence of proper notification of creditors and relevant authorized bodies of the date, time and place of the meeting of creditors;

voting ballots;

other documents at the discretion of the judicial manager or the decision of the meeting of creditors.

The minutes of the meeting of creditors and the documents attached thereto must be submitted to the court no later than two days from the date of the meeting of creditors.

The commented article establishes the procedure for the documentary formalization of the results of a meeting of creditors and their submission for judicial review. The minutes of the meeting of creditors are not merely a reporting document but the most important *item of legal evidence* in the process of considering the insolvency case. The decisions reflected in them are binding on the debtor and all creditors.

1. According to part one of Article 16 of the Law, following a meeting of creditors, minutes are obligatorily drawn up. The absence of minutes deprives of legal force any decisions adopted at the meeting, even if they were adopted unanimously.

Since the organization and holding of the meeting of creditors are entrusted to the judicial manager, ensuring the keeping of the minutes and their signing also falls within its duties. In practice, the minutes may be drawn up by the secretary of the meeting; however, responsibility for their accuracy and content is borne by the judicial manager.

The Law does not establish exhaustive requirements as to the content of the minutes; however, they must reflect information on the date and time of the holding of the meeting, the persons present at the meeting, the agenda, the discussion of the matters included on the agenda, and the decisions adopted on them.

2. Part two of the commented article provides a list of documents to be obligatorily attached to the minutes of the meeting of creditors. In so doing, this list

is not exhaustive, since, on the initiative of the judicial manager or by a decision of the meeting of creditors, other documents may also be attached to the minutes.

The legislator's establishment of a mandatory list of attachments is aimed at implementing the principle of "procedural transparency." The minutes are regarded as a full-fledged legal document only together with the materials attached to them.

The register of creditors' claims as of the date of the meeting is the principal document for determining the existence of a quorum. The register must contain information not only on the creditors but also on the size of their claims conferring the right to vote. Submission of the register as of a different date may entail a distortion of the results of the vote count.

The documents confirming the powers of the creditors' representatives (powers of attorney) confirm the right of the corresponding persons to participate in the meeting and to vote on behalf of creditors. The judicial manager is obliged to verify the presence in the power of attorney of authority to participate in insolvency procedures and to attach such documents to the minutes.

The registration sheets confirm the actual participation of persons in the meeting. The presence of the participants' signatures makes it possible to exclude the possibility of an artificial creation of a quorum.

The materials submitted to the participants of the meeting confirm that the creditors had the opportunity to familiarize themselves with the documents that served as the basis for the adoption of decisions (for example, the draft judicial rehabilitation plan), which attests to their informed voting.

The documents confirming the due notification of the participants of the meeting may include postal receipts, inventories of enclosures, notices of delivery, or copies of printed publications with the published announcement. The absence of such evidence is one of the most widespread grounds for contesting decisions of the meeting of creditors.

The voting ballots reflect the expression of the will of each creditor. The information specified in the minutes on the results of voting must fully correspond to the data of the ballots.

Among the *other documents* may be the dissenting opinions of creditors, written objections, applications and other materials submitted in the course of the meeting.

When accepting the minutes, the court must conduct an "inventory" against this list. Incompleteness of the attachments may serve as a ground for issuing a private ruling with respect to the judicial manager or for calling into question the lawfulness of the adopted decision.

3. The judicial manager is obliged, within two days from the day of the holding of the meeting of creditors, to submit to the court the minutes of the meeting and all the documents attached to them.

The "two-day period" established by the legislator is one of the shortest and strictest procedural time periods in insolvency legislation.

The compressed nature of this period is aimed at excluding the possibility of making changes to the content of the minutes, falsifying the results of voting or subsequently re-executing the documents. The court must receive information on the decisions adopted by creditors in a timely manner in order to take further procedural measures.

The running of the period begins on the day following the date of the holding of the meeting. If the meeting took place on a Friday, the two-day period formally expires on Sunday. However, if the last day of the period falls on a non-working day, the documents must be submitted not later than the following working day.

Untimely submission of the minutes is a procedural violation and may entail the application of measures of liability to the judicial manager or the issuance of a private ruling of the court in relation to him. However, a violation of the period (if the authenticity of the minutes does not raise doubts) is not in itself a ground for setting aside the decision of the meeting, but it gives rise to "distrust" of the manager's activity. Thus, observance of the two-day period serves as an important guarantee of the promptness of insolvency procedures, ensures timely judicial response and evidences due performance by the judicial manager of its duties.

See also: International Commentary, p. 725.

Article 17. Procedure for Making Decisions by the Meeting of Creditors

Decisions of the meeting of creditors on matters put to a vote are taken by a majority of votes of the number of creditors present at the meeting who have the right to vote.

Each creditor entitled to vote has a number of votes proportional to his share in the total accounts payable on the date of the meeting of creditors.

The meeting of creditors adopts by a majority of votes of all creditors entitled to vote:

decision to conclude a settlement agreement;

a decision to apply to the court with a request to introduce a judicial rehabilitation or external management procedure, extend their term or terminate them early;

a decision to apply to the court with a request to declare the debtor bankrupt and initiate liquidation proceedings;

a decision to apply to the court with a request for the appointment, replacement or dismissal of a judicial manager.

If at a meeting of creditors there is not the required quorum of creditors entitled to vote to adopt the decisions provided for in part three of this article, a repeat meeting of creditors shall be convened, which shall be authorized to adopt such decisions by a majority of votes from the number of creditors entitled to vote and present at the meeting, provided that the creditors have been duly notified of the date, time and place of the meeting of creditors.

A decision of a meeting of creditors adopted in violation of the requirements of this Law and other legislative acts and violating the rights and legitimate interests of creditors may be declared invalid by the court upon the application of a creditor who did not participate in the vote or voted against the decision.

Such a decision of a creditors' meeting may be declared invalid by the court if it violates the rights and legitimate interests of other parties to the insolvency proceedings. The application may be filed within twenty days from the date on which the creditor and/or other party to the insolvency proceedings learned or should have learned of the decision.

A decision to petition the court to initiate judicial rehabilitation or external administration, extend their term, or terminate them early is considered adopted if a majority of creditors in the first and second groups vote in favor. If a majority of creditors in the first and second groups vote against or if the required number of votes is not reached in each group, a decision is made to request the court to declare the debtor bankrupt and initiate liquidation proceedings.

Creditors of each group who have voting rights have equal rights to participate in voting.

The commented article determines the procedure for the adoption of decisions by the meeting of creditors and the procedure for determining the number of votes of each creditor. It establishes the list of decisions adopted by the meeting of creditors by a majority of votes and also governs matters of holding a repeat meeting of creditors and of appealing the decisions of the meeting in the event of disagreement with them.

1. Part one of the present article establishes the general procedure for voting at a meeting of creditors, according to which decisions are adopted by a majority of votes of the creditors participating in the meeting.

The quorum for a meeting of creditors is determined in accordance with part ten of Article 12 of the Law. With the exception of the most significant decisions expressly provided by law, all other decisions are adopted under the general voting procedure. An exception to the general voting procedure is the qualified procedure established by part three of the present article.

It should also be taken into account that, for individual matters, the law establishes a special voting procedure. For example, when deciding the matter of the substitution of the debtor's assets (part two of Article 131 and part one of Article 153 of the Law), the consent of *all creditors whose claims are included in the register of creditors' claims* is required. For the approval of the liquidation plan of an insolvent enterprise, the consent of creditors representing not less than two-thirds of the total sum of the claims is required (part two of Article 145 of the Law).

2. In accordance with part two of the present article, the number of votes held by creditors at the meeting is determined in proportion to their share in the total creditors' indebtedness as of the date of the holding of the meeting.

This rule establishes a "balance of forces" among creditors. The number of votes at the meeting is determined not by the number of creditors (one creditor—one vote) but by the volume of their economic interest (the sum of monetary claims).

The number of a creditor's votes directly depends on the sum of its claim included in the register. For example, if the total volume of the creditors' voting indebtedness amounts to 1 billion soums and creditor "A's" claim is 300 million soums, then it holds 30% of the votes at the meeting. Such a system grants larger creditors greater influence over the management process, since the fate of the enterprise affects their funds to a greater extent.

The condition *"on the date of the meeting of creditors"* is of important procedural significance. The register is a dynamic document and may constantly change (as a result of partial repayment of the debt or the inclusion of new claims). The number of votes must be determined not before the meeting but precisely on the basis of the register as of the day of the holding of the meeting. If part of the debt was repaid before the meeting, the number of the creditor's votes is correspondingly reduced.

When verifying the minutes of the meeting, the court must conduct the following mathematical verification: does the sum in the register correspond to the percentage of votes? Were penalties and default interest (sanctions) taken into account when calculating the votes? (According to the legislation, the right to vote is usually granted only with respect to the principal sum of the debt.)

3. Part three of the present article determines the list of matters on which decisions at a meeting of creditors are adopted by a majority of votes of all creditors.

This rule draws a distinction between the ordinary voting procedure (a majority of those present) and the procedure requiring the participation of all creditors having the right to vote. Since the said four matters substantially affect the fate of the enterprise, the legislator established a higher threshold for the adoption of decisions on them.

"A majority of votes of all creditors" means that, in this case, account is taken not only of the votes of those present at the meeting but of the entire aggregate of votes of the creditors included in the register and possessing the right to vote.

When approving the minutes of the meeting or considering the corresponding petition, the court is obliged to verify the arithmetical correctness of the calculations: was the "entire register of creditors" taken as the basis, and not only the participants who "appeared" at the meeting? If there is a quorum at the meeting but the votes gathered do not exceed 50% of the total number of votes per the register, the court may refuse to grant such a request.

This rule is based on the principles of "protection of the rights of the minority" and "legitimacy of important decisions." It prevents a situation in which a small

group of creditors present at the meeting could adopt decisions on behalf of all the others, including major creditors not participating in the session.

4. In accordance with part four of the present article, if at a meeting of creditors convened for the adoption of the decisions provided by part three of the present article the requisite number of votes is not gathered, a *repeat meeting* of creditors is convened. Provided that the creditors are duly notified of the date, time, and place of the holding of the meeting, such a repeat meeting is competent to adopt the said decisions by a majority of votes of the creditors having the right to vote and present at the meeting.

For mitigating (simplifying) the voting procedure at the repeat meeting, the key condition is the *due notification* of all creditors of the first meeting. If the notification procedure was violated when holding the first meeting, the decisions of the repeat meeting are considered invalid.

On strategically important matters (settlement agreement, rehabilitation, replacement of the judicial manager), at the first meeting, more than 50% of the total number of votes included in the register is required. At the repeat meeting, this criterion is abolished, and the decision is adopted by a simple "majority of those present" (50% + 1 vote).

When approving the minutes of a repeat meeting, the court is obliged to conduct a "three-stage verification": whether there are notices of the first meeting and confirmation that it concluded without a quorum; whether the repeat meeting was duly notified (not less than two weeks by post or five days by another method); whether, in counting the votes, only the claims of the creditors present at the meeting were taken into account.

5. Part five of the present article establishes the grounds and procedure for declaring a decision of the meeting of creditors invalid.

An application to declare a decision of the meeting of creditors invalid may be filed by a creditor who did not participate in the voting or voted against the given decision, provided that such a decision was adopted in violation of the requirements of the Law and other normative legal acts and also violates the rights and legitimate interests of the given creditor. The application is considered by the court in the procedure established by Article 60 of the Law.

Not every creditor is entitled to appeal a decision. Such a right is granted only to two categories: *a creditor who voted against*—that is, who participated in the meeting and expressed its objections in the minutes (or ballot); and *a creditor who did not participate in the voting*—as a rule, this is a creditor who was not duly notified or was unable to attend for valid reasons.

The purpose of such a restriction is to preclude the subsequent contestation of a decision by a creditor who previously voted "for."

For declaring a decision invalid, the court must establish the simultaneous existence of two conditions: *the fact of a violation of law*—that is, non-compliance with the requirements of the legislation in the adoption of the decision (for example,

a violation of the notification procedure, an incorrect calculation of the quorum, or the absence of a qualified majority); *a violation of interests*—that is, a real infringement of the rights and legitimate interests of the creditor (for example, an unjustified change in the time periods for the satisfaction of its claims or a situation in which its vote could have affected the result).

When considering the dispute, the court assesses the connection between the "procedural violation" and the "content of the decision." If the violation committed (for example, notification 13 days in advance instead of 14) did not affect the results of the voting and did not lead to a substantial violation of the creditor's rights, the court may leave the decision in force. If, however, the vote of a person not having the right of participation became decisive for the adoption of the decision, such a decision is subject to unconditional setting aside.

See also: International Commentary, p. 725.

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12. To draw the attention of the courts that a decision of the meeting of creditors may be appealed not only by a creditor who did not participate in the voting or voted against the corresponding decision, but also by other persons participating in the insolvency case.

An application to declare a decision of the meeting of creditors invalid may be filed within twenty days from the day when the creditor and/or another person participating in the insolvency proceedings learned or should have learned of the decision.

Such an application is considered in the procedure provided by Article 60 of the Law.

A decision of the committee of creditors may likewise be appealed in the same procedure.

The applicant's withdrawal of an application to declare a decision of the meeting of creditors or the committee of creditors invalid, as well as of other applications (complaints) provided by Article 60 of the Law, entails the termination of the proceedings on the application by analogy with item 6 of Article 110 of the Economic Procedure Code.

The courts should bear in mind that the representative of the debtor's employees, the judicial manager, and the representative of the founders (participants) of the debtor or the owner of the debtor's property are entitled to participate in the meeting of creditors or the committee of creditors without the right to vote. However, their non-participation is not a ground for declaring a decision of the meeting of creditors or the committee of creditors invalid.

6. Part six of the present article provides that an application to declare a decision of the meeting of creditors invalid may also be filed by other persons participating in

the insolvency case, if such a decision violates their rights and legitimate interests. It should be noted that Article 60 of the Law does not provide a procedure for considering such applications by other participants in the insolvency case.

A decision of the meeting may violate the rights not only of creditors but also of "other persons participating in the case." Such persons include:

the debtor: if creditors adopt a decision on an excessively undervalued sale of assets or an unjustified liquidation;

representatives of the labor collective: if the decision affects the employees' rights to wages or social guarantees;

authorized state bodies: if the decision conflicts with state interests (for example, environmental safety or the management of strategic assets).

The legislator established a strict 20-day period for contestation. This period is calculated not from the moment of the adoption of the decision but from "the moment when the person learned or should have learned" of it. The short period is aimed at preventing the protraction of the procedure. Upon the expiry of 20 days, the decision acquires stability and is subject to execution.

When declaring a decision invalid, the court must assess not only the formal violations but also the real violation of interests. For example, whether the decision restricts the property rights of another person or deprives it of the possibility of satisfying its claims.

7. Part seven of the present article establishes the requirements as to the number of votes necessary for the adoption of separate decisions by the meeting of creditors.

A decision to file with the court an application for the introduction of the judicial rehabilitation or external management procedure (their extension or termination) falls within the competence of the majority of each of the first two groups of creditors (secured and unsecured creditors). In the absence of such a decision, a liquidation procedure may be introduced against the debtor.

Secured creditors must be included in the judicial rehabilitation procedure, since their exclusion would require reliance on the separate consent and prohibitions of secured creditors in the course of the judicial rehabilitation procedure, which could harm any solvency-restoration plans adopted by a majority of creditors (plans approved within judicial rehabilitation and external management and aimed at restoring solvency). This is provided by Articles 12, 13, and 17 of the present Law.

In addition, solvency-restoration plans must ensure the regulation of tax claims by limiting the cases in which the tax authorities may exercise a veto right in the judicial rehabilitation procedure. It should be noted that, in accordance with Article 17 of the Law, a decision of the meeting of creditors on the introduction of judicial rehabilitation or external management (as well as on the extension or early termination of the said procedures) is considered adopted if a majority of the creditors of the first and second groups (in accordance with Article 13) voted for it. In other words, a decision on the introduction of judicial rehabilitation or external

management may be adopted by a majority even if the creditors for taxes and duties voted against it.

For the purposes of flexibility and pragmatism, the pre-trial rehabilitation procedure carried out at the initiative of the debtor should allow the debtor to propose a solvency-restoration plan only to certain creditors without affecting the others. In the future, the Law may provide mechanisms for restoring solvency with the participation of individual creditors that impose on the participating creditors the duty to perform certain actions or to refrain from them.

Likewise, for the purposes of voting, the groups of creditors, as well as the corresponding threshold values for the adoption of a solvency-restoration plan, should be part of the solvency-restoration regime and be expressly enshrined in insolvency legislation. As a rule, secured and unsecured creditors are separate groups and must vote with regard to their interests and the order of satisfaction of claims. Where possible and to the extent that it affects their interests, efforts should be made to support the shareholders (participants) or the participants of the debtor. The country's legal system may deprive existing shareholders (participants) of the preemptive right to acquire shares (interests) with respect to any proposed financing measures within a solvency-restoration plan, especially if the shareholders (participants) do not preserve the value of the debtor's business.

In this rule, the legislator dispensed with a simple majority of votes and introduced the principle of "agreement of groups." This guarantees that the rescue of the enterprise (rehabilitation or external management) is carried out only with the consent of the principal creditors: the first group (secured creditors)—whose assets are at risk; the second group (counterparty obligations)—who are the principal commercial partners.

The Law requires the separate consent of each of the two groups to commence the restoration procedure. If one group agrees while the other objects, the restoration procedure does not commence.

In so doing, a strict rule is established: if the creditors of the 1st and 2nd groups do not support restoration (or do not gather a sufficient number of votes), the meeting of creditors is obliged to adopt a decision on the introduction of a liquidation procedure and the declaration of the debtor bankrupt.

This rule is based on economic logic. If the principal holders of funds (secured creditors and suppliers) do not believe in the possibility of restoring the enterprise, then the restoration procedure merely draws out time and leads to a decrease in the value of the assets. Therefore, their will is the key factor determining the direction of the procedure.

8. This rule confirms that the division of creditors into groups (groups 1, 2, and 3) serves not to restrict their participation in voting but to bring order to the procedure. Although the claims of creditors are satisfied in the order of ranking (hierarchy), in the process of voting each creditor, regardless of group, has identical procedural rights: participation in the meeting; participation in the discussion of

matters on the agenda; the right to demand the inclusion of its opinions and objections in the minutes of the meeting; and most importantly, the right to vote in proportion to its share.

Neither the judicial manager nor major creditors are entitled to exclude any group (for example, the tax authority of the 3rd group or small suppliers) from the meeting or to restrict their right to speak under the pretext that "your turn for the satisfaction of claims is later" or "your vote does not affect the result."

Thus, under substantive law (the order of receipt of funds) differences are possible; however, under procedural law (participation in the adoption of decisions) all voting creditors possess equal legal possibilities.

See also: International Commentary, p. 725.

Article 18. Register of Creditors' Claims

The register of creditors' claims is maintained by the judicial manager.

Creditors' claims in the creditors' claims register are recorded in the national currency of the Republic of Uzbekistan. Creditors' claims denominated in foreign currency are recorded in the creditors' claims register at the official exchange rate of the Central Bank of the Republic of Uzbekistan on the day of the creditors' meeting in the manner prescribed by law, unless otherwise provided in the agreement concluded between the creditor and the debtor. The creditors' claims register contains information about each creditor, the established amount of their claims for monetary obligations and (or) obligations on taxes and duties, and the priority for satisfying each of their claims.

In the statement of claims, the creditor is obliged to provide information about itself, including its full company name, location (postal address), email address (if available), personal identification number of a natural person, and bank details (if available).

A person whose claims are included in the register of creditors' claims must notify the judicial manager within one week of any changes to their information, as well as any changes to the amount and content of their claims against the debtor, including any assignment of claims to third parties. If such information is not provided or not provided promptly, the judicial manager and the debtor will bear no liability for any damages caused as a result.

Creditors must be provided with access to the register of creditors' claims. The judicial manager is obligated, at the request of a creditor or their representative, to send them an extract from the register of creditors' claims within five business days of receiving such request, detailing the amount, composition, and priority of their claims. The costs of preparing and sending such an extract are borne by the creditor.

Disagreements arising during the preparation of the register of creditors' claims are considered by the court.

The commented article governs matters connected with the compilation and maintenance of the register of creditors' claims. The register of creditors' claims is one of the principal documents characteristic of the insolvency procedure. Creditors included in the register acquire the status of persons participating in the case (part one of Article 38 of the Law) and may satisfy their claims in the order of ranking indicated in the register.

1. The register of creditors' claims is maintained exclusively by the judicial manager. The maintenance of the register by the judicial manager is explained by the fact that it constitutes not merely a list but a central mechanism of financial control.

The register is a single legal document in which all the recognized obligations of the debtor are concentrated, and responsibility for its maintenance is fully placed on the judicial manager.

The duties of the judicial manager: *acceptance of claims*—it accepts the applications of creditors and the documents attached to them (contracts, judicial acts, invoices and other evidence); *verification*—it verifies the soundness of each claim and the correctness of its sum. If the indebtedness is not reflected in the debtor's accounting documents, the manager may refuse to include it in the register; *determination of ranking*—in accordance with Articles 13 and 150 of the Law, it distributes the claims into the corresponding groups (group 1, 2, 3, 4 or 5).

The register is constantly updated: it is replenished with new recognized claims, is reduced as the debt is repaid or a creditor renounces its claim, and is also changed upon the transfer of the right of claim to another person (cession).

For the court, the register is the principal source determining the right to vote and the distribution of funds. If a creditor disagrees with the judicial manager's decision to refuse to include a claim in the register, it is entitled to file an objection (complaint) with the court. The court considers the dispute and may issue a binding decision on the inclusion of the claim in the register.

The function of maintaining the register vests the judicial manager with "quasi-judicial" powers, since at the initial stage it is precisely the manager who determines who is a creditor and who is not. Therefore, the neutrality and professionalism of the judicial manager ensure the fairness of the procedure.

2. Part two of this article establishes the procedure for maintaining the register and its content. The said rules ensure the equalization of the property rights of creditors in the insolvency process and the application of a single unit of account.

Regardless of the currency in which the debtor's obligation arose, the final figures in the register must be expressed exclusively in the national currency of the Republic of Uzbekistan—the soum. This is necessary for the proportional distribution among creditors of the funds received from the realization of assets.

Where the debtor has indebtedness in a foreign currency, for the purposes of the first meeting of creditors the size of the claims to be included in the register of creditors' claims is determined by the court at the official exchange rate of the

Central Bank of the Republic of Uzbekistan as of the date the court accepts the application to declare the debtor insolvent, and at subsequent stages of the procedure—at the official rate as of the date of the introduction of the corresponding insolvency procedure.

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24. ...

According to part two of Article 18 of the Law, the recording of creditors' claims in the register is conducted in the national currency of the Republic of Uzbekistan. Creditors' claims expressed in a foreign currency are recorded in the register at the official exchange rate of the Central Bank of the Republic of Uzbekistan on the day of the holding of the meeting of creditors in the procedure established by legislation, unless otherwise provided by the contract concluded between the creditor and the debtor.

To draw the attention of the courts that the day of the holding of the meeting of creditors should be understood as the date of the adoption by the meeting of creditors of the decision to apply to the court with a petition for the introduction of the corresponding insolvency procedure.

Monetary obligations and/or taxes and duties that arose after the commencement of the insolvency case of the debtor and the period for the performance of which fell after the introduction of the corresponding insolvency procedure are recognized as current payments and are not subject to inclusion in the register of creditors' claims.

If the contract between the creditor and the debtor provides a different procedure for calculating the exchange rate (for example, "the rate on the day of payment" or a "fixed rate"), it is precisely the contractual procedure that has priority.

The register of creditors' claims contains information on each creditor, the established size of its claims against the debtor and the order of satisfaction in accordance with Article 149 and parts two through five of Article 150 of the Law.

For each creditor, the register obligatorily reflects a "triple set" of data: identification of the creditor (name, taxpayer identification number (TIN)/personal identification number of a natural person (PINFP), address); the exact size of the claim (the recognized principal debt and separately recorded default interest/penalties); the ranking (to which of groups 1–5 it belongs).

The register of creditors' claims includes the obligations of the debtor that arose before the court accepted the application to declare the debtor insolvent and the period for the performance of which fell before the introduction of the corresponding insolvency procedure. Claims that arose after the court accepted the application or after the introduction of the insolvency procedure or obligations the period for the

performance of which falls after that, are considered current claims and are not included in the register.

It should also be taken into account that, in liquidation proceedings, as a rule, all creditors are included in the register regardless of the order of satisfaction of claims (including extraordinary creditors whose claims arose before the start of liquidation). This is necessary so that both the judicial manager and the creditors have a full picture of the total volume of the debtor's obligations. The volume of the expenses specified in part one of Article 150, including the expenses connected with liquidation, current utility and operating payments, and so forth, may still be unknown at the time of compiling the register and is therefore not always included in full.

3. A creditor's application is a document that officially confirms its entry into the procedure and expresses a property claim. The legislator's establishment of mandatory requisites for the application makes it possible to systematize the work of the judicial manager and the distribution of funds.

For the inclusion of information on a creditor in the register of creditors' claims, the creditor, when stating its claims, is obliged to indicate information about itself (for natural persons—surname, name, patronymic, passport data; for legal entities—name, location), as well as (where available) banking requisites.

4. A creditor whose claims are included in the register of creditors' claims is obliged to notify the judicial manager of a change in the information specified in part three of the present article, as well as of a change in the size and composition of its claims against the debtor, including cases of assignment of claims to third parties.

If a creditor has not timely submitted information about itself and its banking requisites (this also applies to changes in such data), the risk of losses caused thereby is borne by the creditor itself—the judicial manager and the debtor do not assume liability for such losses.

The legislator establishes an important protective rule for the judicial manager and the debtor: if a creditor did not timely communicate changes and as a result incurred losses, responsibility for this lies with the creditor itself. For example, if a creditor did not communicate a change in banking requisites and the funds were transferred to the old (closed) account or "got stuck," it is not entitled to demand from the manager compensation for losses or the accrual of a penalty for the delay.

This rule is based on the principle of "risk allocation." The creditor bears responsibility for the fate of its claim. The judicial manager is not obliged to verify daily the currency of each creditor's requisites and is entitled to rely on the data contained in the register.

5. The transparency of the conduct of insolvency cases is an important element of the modern bankruptcy system. In this connection, the information contained in the register of creditors' claims must be accessible to all interested persons (subject to the applicable rules on data protection and confidentiality).

Part five of this article establishes that the information contained in the register must at any time be accessible only to a creditor (or its authorized representative), regardless of the size of its claims—within the bounds of the total sum of creditors' indebtedness reflected in the register. In such a case, the judicial manager is obliged, within five working days from the moment of receipt of the request, to send an extract from the register of creditors' claims, with the costs connected with the preparation and sending of the extract from the register being placed on the creditor (in the event of a refusal, the creditor is entitled to appeal the actions of the judicial manager in accordance with part two of Article 60 of the Law).

This rule ensures the principle of "informational openness" in the insolvency procedure and the control of creditors over their claims. The judicial manager is obliged not only to provide the extract but also to create conditions for the direct familiarization of creditors with the register. This guarantees the creditor's right to personally verify the correctness of the inclusion of its claim in the register.

The insolvency system also provides for the creation of electronic registers containing publicly accessible information on insolvency procedures, subject to the requirements of data protection and confidentiality.

6. When compiling the register of creditors' claims, disputes arising between the creditor, the debtor and the judicial manager regarding the ranking, composition and size of monetary obligations or taxes and duties are considered by the court in the procedure provided by Article 60 of the Law.

This rule is the most important procedural mechanism of control ensuring the reliability of the register of claims. Since the register determines the right to vote and the distribution of funds, every sum reflected in it must be under judicial control.

The main types of disputes include: *refusal to include in the register*—cases where the judicial manager recognizes a creditor's claim as unfounded and does not include it in the register; *a dispute over the size of the sum*—where the claim is included but there are objections regarding its size (for example, as to the principal debt or accrued default interest); *a dispute over ranking*—where a creditor considers that its claim should be recognized as privileged (for example, assigned to the 2nd group), whereas the manager assigns it to a later rank.

See also: International Commentary, p. 726.

Article 19. Committee of Creditors

The creditors' committee represents the interests of creditors and exercises control over the actions (inaction) of judicial managers.

The creditors' committee shall include representatives of creditors in the number determined by the meeting of creditors.

If the number of creditors is less than twenty, the decision of the meeting of creditors may provide for the assignment of the functions of the creditors' committee to the meeting of creditors.

In order to carry out the functions assigned to it, the creditors' committee has the right to:

demand that the judicial manager provides information on the financial condition of the debtor and the progress of the insolvency proceedings;

appeal to the court the actions (inaction) of the judicial manager;

elect own representative to participate in the insolvency proceedings;

carry out other actions provided for by this Law and the judicial rehabilitation or external management plan.

The creditors' committee has the right to make decisions:

on convening a meeting of creditors;

on the recommendation to the meeting of creditors to apply to the court for the appointment, replacement and dismissal of a judicial manager;

on approval or refusal to approve major transactions of the debtor and transactions of the debtor in which there is an interest.

When deciding matters at a creditors' committee meeting, each member of the creditors' committee has one vote. A member of the creditors' committee may not transfer their voting rights to another person.

Decisions of the creditors' committee are taken by a majority vote of the total number of members of the creditors' committee.

A representative of the debtor's employees, a judicial manager, a representative of the founders (participants) or the owner of the debtor's property may participate in the meetings of the creditors' committee without the right to vote.

The commented article determines the status and powers of the committee of creditors. The committee of creditors is a special body of creditors that is recognized as a subject of insolvency law (while not being a subject of civil law).

1. Part one of this article defines two principal functions of the committee of creditors: first, it represents the interests of creditors; second, it exercises control over the actions of the judicial manager.

This rule implements in the insolvency procedure the principle of "representation and control." Since the meeting of creditors may include hundreds of creditors, the committee acts as a compact body exercising operational and ongoing control.

1) *representation of interests.* The committee of creditors acts on behalf of the meeting of creditors. Its principal task is to ensure a balance of the interests of all creditors (both large and small) and to represent them before the court and the judicial manager.

2) *control over the activity of the judicial manager.* This is the most important power of the committee. Control is exercised in the following forms: hearing reports—obtaining information from the judicial manager on the work done and the expenses; analysis of actions—verifying the lawfulness of the manager's actions,

including the sale of assets, the rescission of contracts and the making of expenditures; measures of response to inaction—if the manager is passive in searching for assets or recovering indebtedness, the committee is entitled to appeal this to the court.

2. A decision to create a committee of creditors is adopted by the meeting of creditors, with the number of creditors' representatives determined by the meeting being included in its composition.

This rule does not establish a fixed number of committee members, leaving its determination to the discretion of the meeting of creditors. This makes it possible to take into account the specifics of each particular insolvency case, proceeding from its complexity and the number of creditors.

3. In accordance with this rule, a committee of creditors is created by the general meeting of creditors where there are twenty or more creditors. However, this does not mean the mandatory formation of a committee upon reaching the said number of creditors. In each particular case, the meeting of creditors independently adopts a decision on whether or not to create a committee of creditors. If the number of creditors is fewer than twenty and the meeting of creditors has not adopted a decision to create a committee of creditors, the functions of the committee may be exercised by the meeting of creditors itself. A corresponding decision on this is adopted at the meeting of creditors.

4. In accordance with this rule, for the purpose of exercising control over the actions of the judicial manager, the committee of creditors is entitled to: demand from the judicial manager the periodic provision of information on the financial condition of the debtor and on the actions performed by it; appeal to the court the unlawful actions of the judicial manager (where they exist).

This rule grants the committee of creditors legal instruments for establishing real control over the activity of the judicial manager and for active participation in the procedure.

5. This part of the article contains an indicative list of rights that the creditors' committee may exercise in the course of performing its functions: a) the creditors' committee is entitled to demand from the judicial manager the convening of a general meeting of creditors; b) the creditors' committee is not entitled to directly remove the judicial manager from office but may identify deficiencies in its activity and give the general meeting of creditors a professional opinion (recommendation) on its replacement.

A recommendation of the general meeting of creditors to apply to the court with a petition for the appointment, replacement or removal of the judicial manager is one of the important decisions adopted at the meeting of creditors. It is aimed at ensuring the effectiveness and fairness of management in the insolvency process.

In the event that the creditors' committee expresses distrust of the activity of the judicial manager or considers its work unsatisfactory, it is entitled to propose that the general meeting of creditors consider the matter of its replacement, removal or the

appointment of a new candidate and to send the corresponding petition to the court. This matter is discussed at the general meeting of creditors and is adopted by voting. As a rule, the votes are distributed in proportion to the size of the creditors' claims, and the decision is adopted by a majority of votes.

The decision indicates the data of the judicial manager (full name and position), the proposed measures with respect to it (appointment, replacement, removal), and the substantiation (for example, deficiencies in activity, conflict of interests, loss of trust, etc.). Where there are candidates for replacement, they are also reflected in the decision. The power to file the petition with the court is placed on an authorized person (for example, the chairperson of the meeting of creditors or the initiating creditor).

The significance of this decision consists in ensuring the transparency and effectiveness of the insolvency procedure, as well as in strengthening the control of creditors over the activity of the judicial manager and protecting their interests.

A decision of the general meeting of creditors to apply to the court with a request for the removal or replacement of the judicial manager is a mechanism of creditor influence over management and promotes the maintenance of a balance of interests and fairness in the insolvency process.

In the event of a general meeting of creditors, the committee may also adopt a decision on the necessity of applying to the court with a request for the replacement, removal, or appointment of a new judicial manager and convey this recommendation to all creditors at the meeting. The creditors' committee, possessing the right to apply to the court with a complaint about the actions (or inaction) of the judicial manager, may simultaneously request for its removal in connection with such violations: c) control over major and interested-party transactions is one of the key "protective" functions of the committee. When selling the debtor's property or concluding significant contracts, the judicial manager is obliged to obtain the consent of the committee of creditors.

6. This rule governs matters of voting and provides that: each member of the committee of creditors holds one vote; the transfer of the right to vote by a member of the committee of creditors to another person is prohibited.

The meeting of creditors elects a person to the committee of creditors proceeding from its personal and professional qualities. Therefore, the transfer of this responsibility to another person would conflict with the will of the meeting. In so doing, it should be noted that this does not mean the impossibility of participation of a representative (for example, an attorney) of a committee member in a session—the matter concerns only the fact that it is precisely the committee member itself that must participate in the voting process.

7. This rule provides that decisions are adopted by a majority of votes of the total number of members of the committee of creditors. The Law does not establish requirements as to a quorum at sessions of the committee; however, it follows from

the content of the rule that a majority is required not of those present at the session but of the total number of committee members.

This rule does not govern the method of voting at committee sessions, in particular, whether voting may be conducted by way of a poll (absentee voting). In the absence of special regulation on this score, it appears possible to permit such a form of voting. At the same time, it is expedient to establish that all matters must be resolved (and voted on) exclusively at sessions of the committee of creditors.

8. This rule establishes that the representatives of the debtor's employees, the founders (participants), or the owner of the debtor's property, as well as the judicial manager, are entitled to participate in a session of the committee of creditors. However, the said persons do not possess the right to vote in the adoption of any decisions.

The subjects participating without the right to vote include: *the representative of the debtor's employees*—it monitors that the employees' rights, including remuneration of labor and social guarantees, are not violated in the process; *the judicial manager*—it provides the committee members with explanations on the actions being carried out and answers their questions; *the representative of the founders (participants) and the owner of the property*—it makes proposals regarding the preservation and possible restoration of the debtor's assets.

The said persons are entitled to: speak on matters on the agenda; enter their objections and proposals into the minutes; familiarize themselves with the materials under consideration. However, their opinions "for" or "against" are not taken into account in counting the votes.

The judicial manager is obliged to notify the said persons in advance of the holding of committee sessions. A violation of the notification procedure or the denial of participation may be regarded as a violation of the principle of openness of the procedure.

See also: International Commentary, p. 726.

Article 20. Election of the Committee of Creditors

Members of the creditors' committee are elected by the creditors' meeting for the duration of judicial rehabilitation, external administration and liquidation proceedings. By decision of the creditors' meeting, the powers of all creditors' committee members may be terminated early. This decision may be made for all members of the creditors' committee simultaneously.

The candidates who receive the highest number of votes are considered elected to the creditors' committee.

The members of the creditors' committee may elect from among their composition a chairman of the creditors' committee.

If the creditors' committee has more than five members, the chairman of the creditors' committee must be elected.

The commented article establishes the procedure for the election of the members and the chairperson of the committee of creditors, as well as for the early termination of their powers.

1. The committee of creditors acts during the procedures of judicial rehabilitation, external management and liquidation proceedings. In the event that the general meeting of creditors adopts a decision on the early termination of the powers of all the committee members, such a decision may be adopted only simultaneously with respect to all the members of the committee of creditors.

The committee members are elected not for a calendar term (for example, for one year) but for the period of the corresponding procedure. This means that if the committee was elected at the beginning of rehabilitation, it retains its powers until the completion of the rehabilitation (or until the transition to another procedure).

Although Article 89 of the Law provides for the possibility of electing a committee of creditors in the observation procedure, the actual realization of its activity and the exercise of its powers take place at the stage of subsequent insolvency procedures, since the principal aim of the observation procedure is to conduct a financial analysis and ensure the safekeeping of the debtor's property.

2. In accordance with this rule, the candidates who gathered the greatest number of votes are considered elected to the composition of the committee of creditors. Since two methods of election are provided—by individual candidates or by a general list—after the choice of the voting method, each creditor expresses its will by voting.

3. It follows from the content of this rule that the election of a chairperson of the committee of creditors is not mandatory, since part three indicates that "the members of the committee of creditors may elect from their composition a chairperson of the creditors' committee." However, if a chairperson is not elected, the rules of procedure of the committee must determine who will sign the minutes of the sessions, that is, it is necessary to establish the person performing the functions of the presiding officer at the sessions of the committee of creditors. In the event of the election of such a chairperson, it is precisely that person who signs the minutes of the sessions.

4. This rule provides that, if the number of committee members exceeds five, the election of a chairperson is a mandatory condition of the committee's activity. In this case, the legislator does not permit discretion. If the committee includes more than five members, a chairperson must be elected at the first session of the committee. The further actions and decisions of a committee in which a chairperson has not been elected may be recognized as procedurally questionable.

Article 21. Interested Persons

Interested parties in relation to the legal entity debtor are:

a legal entity that is the parent or dependent in relation to the debtor in accordance with the law;

the manager of the debtor, as well as persons included in the supervisory board, the collegial executive body, the chief accountant (accountant), including in cases of termination of an employment contract with them within one year prior to the initiation of insolvency proceedings;

founders (participants) of a legal entity or the owner of the debtor's property.

In this Law, an interested party in relation to a natural person, including a debtor who is an individual entrepreneur, shall mean his/her spouse, relatives in the direct ascending and descending line, sisters, brothers and their relatives in the descending line, parents, sisters and brothers of the spouse.

Interested parties in relation to judicial managers and creditors are determined in accordance with parts one and two of this article.

The commented article determines the subjects recognized as interested persons with respect to the debtor, creditors and judicial managers.

1. In accordance with this rule, the following may be classified as interested persons with respect to the debtor—a legal entity: 1) a legal entity that, in accordance with the legislation, is a parent or dependent (controlled) with respect to the debtor. According to Article 68 of the CC, a business company is recognized as dependent if another participating company (the parent company) owns more than twenty percent of its voting shares; 2) the manager of the debtor, as well as the persons forming part of the supervisory board, the collegial executive body, the chief accountant (accountant), including in cases of termination of the employment contract with them, if this occurred within one year before the commencement of the insolvency case, that is, before the court accepted the corresponding application; 3) the founders (participants) of the legal entity.

Institutional interest. Parent and dependent legal entities: if the debtor enterprise is a subsidiary of another company or vice versa, such organizations are recognized as mutually interested. This is aimed at identifying schemes for "withdrawing" assets from one company to another.

Management and responsible employees. The legislator includes among interested persons not only acting managers but also persons who left within the last year. In practice, before bankruptcy, management often resigns in order to avoid liability. The one-year period makes it possible to contest suspicious transactions signed by such persons.

Owners and founders. Founders, as a rule, possess the fullest information about the internal condition of the company. Recognizing them as interested affects, among other things, the order of satisfaction of their claims.

When considering an insolvency case, the court must take into account that: when appointing a judicial manager, a person who is interested with respect to the debtor (for example, a former accountant) cannot be appointed; transactions with interested persons may be contested and declared invalid where they are of a preferential nature; in individual cases, the rights of such persons to participate in voting may be restricted.

A clear list of interested persons is a legal barrier against the artificial driving of an enterprise into bankruptcy and attempts to "appropriate" assets.

Transactions with interested persons entail the duty to comply with special requirements (for example, part five of Article 19, part five of Article 96, parts two and four of Article 118, Article 64, part three of Article 162 of the Law); such persons cannot be appointed judicial managers (part three of Article 22 of the Law); and persons interested with respect to the debtor or the judicial manager are not entitled to participate as the organizer of auction trading (part twelve of Article 126, part six of Article 151 of the Law).

The legal purpose of this rule is to prevent the bad-faith influence of persons connected with the debtor over the bankruptcy procedure, as well as to exclude the withdrawal of assets and the creation of fictitious creditors' indebtedness.

2. The following may be classified as interested persons with respect to the natural person debtor, including an individual entrepreneur: its spouse, relatives in the direct ascending and descending line, brothers and sisters, as well as relatives of brothers and sisters in the direct line, the parents of the spouse, and the brothers and sisters of the spouse.

When considering the insolvency case of a natural person, the court must take into account the following: contestation of transactions—if the debtor, before the commencement of the insolvency case (as a rule, within 1–3 years), performed transactions for the sale or gift of housing, an automobile or other property to the said relatives, such transactions are by presumption considered suspicious; the burden of proof—in the case of transactions with interested persons, the duty to prove their good faith is placed not on the creditor but on the debtor and the corresponding relative. They must prove that the transaction was performed at a market price and did not have the purpose of concealing property from creditors.

When taking inventory of the debtor's property, the judicial manager is obliged to verify not only the assets registered in the debtor's name but also the history of the transfer of property to its close relatives.

3. In this part of the article, when determining the range of interested persons with respect to the judicial manager or a creditor, one should proceed from the provisions enshrined in parts one and two. Thus, with respect to the judicial manager, interested persons may be the persons specified in part two of the commented article,

and with respect to creditors, the rules of part one apply if the creditor is a legal entity, and those of part two—if the creditor is a natural person.

In accordance with Article 22 of the Law, interested persons cannot be appointed judicial managers. For example, if a bank (creditor) proposes to appoint its former lawyer or an employee of a subsidiary organization as judicial manager, this is recognized as a conflict of interests, and the court is obliged to reject such a candidacy.

Before approving a candidacy, the court is obliged to verify the absence of connections not only with the debtor but also with major creditors. If, in the course of the procedure, the presence of close kinship or business connections of the manager with any creditor is revealed, this is a sufficient ground for its removal.

This rule is an important part of the institution of "conflict of interests." The judicial manager acts as a neutral person obliged to protect the interests of all creditors to an equal degree. Where there is dependence on one of the creditors, there arises a risk of granting it advantages in the distribution of funds or the contestation of transactions.

Article 22. Judicial Managers

Persons who have a higher education, at least two years of work experience, and have passed certification by an authorized government agency may be appointed as judicial managers.

A judicial manager may also be a lawyer who meets the requirements of the first part of this article and has a license to specialize in conducting civil and economic legal cases.

The following persons cannot be appointed as judicial managers:

interested parties in relation to the debtor or creditors;

persons with an outstanding or unremoved criminal record;

persons recognized by the court as incompetent;

individual entrepreneurs or natural persons in respect of whom insolvency proceedings have been introduced;

persons who, while previously performing the duties of a judicial manager, caused damage to the debtor or creditors and did not compensate for the said damage;

persons whose validity period of the certificate of a judicial manager was terminated (canceled) and (or) temporarily suspended (for the period of temporary suspension of the validity period of the certificate of a judicial manager) by decision of an authorized state body;

persons in respect of whom there are restrictions on the implementation of activities related to the management of affairs and (or) property of other persons (persons deprived of the right to engage in such activities).

The court, in accordance with the grounds specified in part three of this article, refuses to appoint a candidate recommended by the judicial manager, or relieves the manager from performing his duties in the event of the presence of evidence presented by the persons participating in the insolvency case.

The judicial manager, within ten days from the date of his appointment by the court as a judicial manager, must insure his liability in the event of harm caused to persons participating in the insolvency case.

The requirements specified in part five of this article do not apply to judicial managers implementing a simplified insolvency procedure.

The meeting of creditors has the right to demand that the judicial manager conclude an insurance agreement for the debtor's property.

The commented article determines the range of persons who may be appointed judicial managers, the grounds for refusing their appointment and the duty of the judicial manager to insure its liability and the debtor's property.

1. The following types of judicial managers participate in insolvency procedures: the temporary manager, the rehabilitation manager, the external manager, the liquidation manager and the financial manager. For the appointment of any judicial manager, the candidate must meet certain requirements.

By Resolution of the Cabinet of Ministers No. 838 of 30 December 2025, Annex 4, the *Regulation on the Procedure for Issuing a Qualification Certificate of a Judicial Manager* was approved, which establishes the procedure for conducting the qualification examination for candidates and for rendering the service of issuing a qualification certificate. In accordance with this Regulation, the court, depending on the insolvency procedure, appoints the following judicial managers: for the observation procedure—an temporary manager; for the judicial rehabilitation procedure—a rehabilitation manager; for the external management procedure—an external manager; for the liquidation proceedings procedure—a liquidation manager; for the procedure of debt restructuring of a natural person and the realization of its property—a financial manager.

A citizen of the Republic of Uzbekistan holding a qualification certificate of a judicial manager is recognized as a judicial manager and is appointed by the court taking into account the rating assessment of its activity and the category of the certificate:

in the procedures of observation and of debt restructuring of a natural person or the realization of its property, the manager is appointed from among the candidates proposed by the creditor(s). If a candidate for temporary manager is not proposed by the creditor(s), it is appointed from among the candidates proposed by the Agency or its territorial department or by an authorized organization or its territorial division;

in the judicial rehabilitation procedure, the manager is appointed from among the candidates proposed by the meeting of creditors or by the persons who furnished

security for the debtor's obligations, as well as by the Agency or its territorial subdivision;

in the procedures of external management and liquidation proceedings, the manager is appointed from among the candidates proposed by the meeting of creditors or by the Agency or its territorial subdivision;

in organizations with a state share in the charter capital, in all insolvency procedures the manager is appointed from among the candidates proposed by the Agency or its territorial subdivision.

A judicial manager must meet the following *basic qualification requirements:* have higher education; have not less than two years of work experience in the sphere of economics, finance, accounting, audit, tax consulting or law; pass the qualification examination at an authorized organization.

In addition to the said basic requirements, the following additional qualification requirements are established for judicial managers:

for persons carrying out external management—having experience as a second-category judicial manager not less than twice in conducting judicial rehabilitation procedures and/or not less than two years as a judicial manager in conducting liquidation procedures, as well as no decline in rating below a high level during the year; or having not less than 12 months of experience as a second-category judicial manager, as well as not less than five years of managerial work experience (in state administration bodies, local government bodies, judicial bodies, business companies, and other organizations) and a consistently high rating during three consecutive quarters;

for persons carrying out the judicial rehabilitation procedure—having experience as a third-category judicial manager not less than 24 months without a decline in rating below a satisfactory level during the year; or having not less than 12 months of experience as a third-category judicial manager, as well as not less than 24 months of managerial work experience (in state administration bodies, local government bodies, judicial bodies, business companies, and other organizations) and a stable rating not below a satisfactory level during three consecutive quarters;

for persons carrying out the procedures of observation and liquidation proceedings—having experience as a fourth-category judicial manager not less than 24 months without a decline in rating below an average level during the year; or having not less than 12 months of experience as a fourth-category judicial manager, as well as not less than 24 months of managerial work experience (for example, at the level of heads of subdivisions of republican organizations) and a stable rating not below an average level during three consecutive quarters;

for persons carrying out simplified insolvency procedures, as well as the procedure of debt restructuring of a natural person and the realization of its property—having not less than two years of work experience in the sphere of economics, finance, accounting, audit, tax consulting or law.

A judicial manager must possess skills in analyzing the financial condition of the debtor, knowledge of accounting, property valuation and management, knowledge of the legislation of the Republic of Uzbekistan, be able to find solutions for the financial recovery of the debtor and the proportional satisfaction of creditors' claims, have professional knowledge in the sphere of insolvency, constantly improve it and possess high moral and ethical qualities (good faith, initiative, discipline, emotional and psychological stability).

In addition, it is established that only a natural person may be appointed a judicial manager. Although this rule does not directly indicate the requirement of citizenship of the Republic of Uzbekistan, the subordinate act enshrines that a judicial manager is a citizen of the Republic of Uzbekistan holding a certificate issued by an authorized organization.

A person who performed the duties of a judicial manager in a previous procedure may be reappointed a judicial manager in a subsequent procedure as well (where there is a corresponding certificate). In so doing, each time it is required to undergo the selection and appointment procedure.

In insolvency cases, judicial managers occupy a central place in an effective bankruptcy system. They hold a responsible status, perform key obligations to creditors, and play an important role in ensuring the prompt, predictable and orderly management of the insolvency procedure. In this connection, it is important to ensure the good faith, professionalism, high level of qualification and honesty of the activity of judicial managers, as well as the proper regulation of their work.

Accordingly, an effective insolvency system must regulate their activity and be based on certain principles: the establishment of formal requirements and requirements for professional training, appointment procedures ensuring a balance of the interests of all parties, rules of removal, resignation and replacement, standards of professional conduct to ensure the effective and timely conduct of cases, requirements for reporting and full transparency for the court, creditors, debtor and regulatory bodies, oversight and disciplinary mechanisms, fair and reasonable remuneration and reimbursement of expenses (which promotes the attraction of highly qualified specialists), support for codes of ethics, insurance and reasonable allocation of liability.

A judicial manager performs the functions of a temporary, rehabilitation, external, liquidation and financial manager in all insolvency procedures. Any candidate for the position of judicial manager must meet the established requirements, which are conventionally subdivided into positive (the presence of the necessary conditions) and negative (the absence of impediments). The positive requirements are established in part one of this article, as well as in the Regulation approved by Resolution of the Cabinet of Ministers No. 765 of 12 September 2019, *governing the procedure for the training and professional development of persons applying for a certificate of a judicial manager.*

2. According to part two of this article, an attorney holding a license with specialization in the field of civil and judicial proceedings may be appointed a judicial manager, provided that it meets the requirements specified in part one. An attorney must have higher education, not less than two years of work experience, and pass attestation to obtain the status of a judicial manager.

According to paragraph 13 of the Regulation on the Procedure for Issuing a Qualification Certificate of a Judicial Manager, attorneys with the specialization "civil and economic cases" and continuous work experience of not less than three years are entitled to be admitted to the qualification examination without undergoing training courses for the preparation of judicial managers.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025, "On Certain Matters of the Application by Economic Courts of the Norms of the Law of the Republic of Uzbekistan 'On Insolvency'"

17. In accordance with parts one and two of Article 22 of the Law, persons having higher education, work experience of not less than two years, and having passed attestation at an authorized state body, as well as attorneys meeting the said requirements and holding a license with specialization in conducting civil and economic judicial cases, may be appointed judicial managers.

The authorized state body maintains a unified register of judicial managers and submits information from it to the Supreme Court of the Republic of Uzbekistan in electronic form by means of interdepartmental information exchange.

When resolving the matter of the appointment of a judicial manager, the court must obtain information on the certificate from the unified register and attach it to the case materials.

18. The following may not be appointed judicial managers: persons interested with respect to the debtor or creditors; persons having an unexpunged or outstanding criminal record; persons declared legally incompetent by a court; individual entrepreneurs or natural persons with respect to whom an insolvency procedure has been introduced; persons who, in the previous performance of the duties of a judicial manager, caused harm to the debtor or creditors and did not compensate the said harm; persons whose qualification certificate of a judicial manager was terminated (annulled) and/or temporarily suspended (for the period of the temporary suspension) by a decision of the authorized state body; persons with respect to whom there are restrictions on carrying out the activity of managing the affairs and/or property of other persons (persons deprived of the right to engage in such activity).

On the said grounds, the court must refuse to appoint the proposed candidate to the position of judicial manager or remove the judicial manager from the performance of its duties.

To draw the attention of the courts that interested persons with respect to the debtor and creditors are understood to mean the persons specified in Article 21 of the Law.

3. In part three, this article establishes a list of circumstances in which a person cannot be appointed an insolvency manager:

a) the presence of interest of the person with respect to the debtor or creditors, determined in accordance with the provisions of Article 21 of the Law. This restriction was introduced because, where there is interest, the manager will be unable to act in good faith and impartially but will be inclined to protect the interests of one of the parties (part five of Article 23 of the Law);

b) the presence of an outstanding or unexpunged criminal record. The procedure for expunging and removing a criminal record is determined by Articles 78 and 79 of the Criminal Code of the Republic of Uzbekistan;

c) the declaration of the person as legally incompetent by a court. The matter concerns citizens who, owing to a mental disorder or illness, are incapable of understanding the significance of their actions or of directing them;

d) the participation of the person in a bankruptcy case with respect to the debtor itself—a natural person, within the procedures provided by Article 30 of the Law: debt restructuring, declaration of bankruptcy and realization of property. In the case of an individual entrepreneur, the liquidation proceedings procedure is applied;

e) the presence of uncompensated harm caused to the debtor or creditors. According to part two of Article 25 of the Law, the debtor and creditors are entitled to demand compensation for harm caused by the actions (or inaction) of the manager. Consequently, a person who has not compensated such harm cannot be reappointed a judicial manager;

f) the presence of restrictions on carrying out the activity of managing the property and affairs of other persons (disqualification). The Law does not specify the type and scope of such restrictions; however, they are taken into account only where there is a judicial act prohibiting the person from holding managerial positions or from engaging in the management of economic subjects;

g) persons with respect to whom there is an unexpunged or outstanding criminal record or who are declared by a court legally incompetent or of limited legal capacity belong to the category of persons to whom restrictions on carrying out managerial activity apply. Such restrictions are established on the basis of a judicial decision or as a result of the commission of certain offenses.

4. This rule enshrines the right of the court in a bankruptcy case to refuse to appoint a proposed candidacy or to remove a judicial manager from the performance of its duties where there is evidence, presented by the persons participating in the case, confirming the grounds specified in part three of the article under consideration.

Persons who have applied to the court with a proposal of a candidacy for judicial manager are obliged to provide the court with full information about the proposed person. The participants in the process are entitled, in the course of the judicial proceedings, to raise objections regarding the appointment of a particular person as the insolvency manager, with the parties being required to present evidence in substantiation of their arguments. Proceeding from the principles of judicial

proceedings, the matter of the removal or replacement of a judicial manager must not be resolved by the judge exclusively on its own initiative without corresponding grounds presented by the parties.

5. By this rule, the legislator attempts to regulate the problem of compensation for harm caused by the judicial manager. Part four of the article under consideration enshrines the duty of the judicial manager to insure its civil-law liability for possible harm caused to the persons participating in the bankruptcy case, in the procedure established by the legislation on insurance, within ten days from the moment of its appointment.

In the bankruptcy process, the judicial manager disposes of significant assets. Its errors or negligence (for example, the sale of property at an undervalued price, the untimely payment of taxes, etc.) may cause substantial harm to creditors. The insurance policy is intended to cover such losses.

The legislator established a strict ten-day period calculated from the moment of the manager's appointment. Within this period, it is obliged to conclude a contract with an insurance organization and execute an insurance policy. In the event of failure to perform this duty within the established period, it in fact cannot commence the performance of its powers, and this may serve as a ground for its removal from office.

6. Judicial managers carrying out the simplified bankruptcy procedure (fourth-category judicial managers) are released from the duty to insure their liability for possible harm caused to the persons participating in the bankruptcy case.

The simplified procedure is, as a rule, applied in cases where the debtor has no property or insufficient property (for example, with respect to an absent debtor). In such situations, in order to speed up the process and reduce excessive technical expenses (in particular, the costs of the insurance policy), the said exemption is provided.

7. Part seven of this article grants the meeting of creditors the right to require the judicial manager to conclude a contract of insurance of the debtor's property in accordance with the applicable insurance legislation. In so doing, it is not indicated at whose expense such insurance is carried out. In practice, such insurance may be carried out both at the expense of the judicial manager itself and at the expense of the debtor's property. The meeting of creditors is entitled to determine the time period for concluding the contract and the indicative sum insured. Usually, the size of the sum insured is determined proceeding from the value of the property to be insured, which is established by the insured itself, after which the size of the insurance premium is calculated.

The payment of the insurance premium is carried out at the expense of the debtor's property (funds), that is, it relates to the expenses of the bankruptcy procedure. If the debtor has no funds, the creditors may independently finance the insurance on condition of the subsequent first-priority reimbursement of these

expenses. If the meeting of creditors adopts a corresponding decision, the judicial manager is obliged to conclude a contract of insurance.

See also: International Commentary, p. 727.

Article 23. Rights and Duties of the Judicial Manager

The judicial manager has the right to:

convene a meeting of creditors;

demand the convening of a creditors' committee in cases provided for by this Law;

submit claims and other applications to the court without prepayment of the state duty;

receive remuneration in accordance with Article 26 of this Law;

engage other persons on a contractual basis with payment for their activities being made at the expense of the debtor, unless otherwise provided by an agreement with creditors;

use government services, including those provided through government service centers, without prepayment;

receive free information from individuals and legal entities (including credit institutions) and government agencies about the debtor's property, accounts and deposits, including his credit cards, electronic balances and electronic money transfers;

request information from the debtor—an individual about his activities in implementing the plan for restructuring the individual's debt;

in order to fulfill the obligations imposed on it, to receive information free of charge from the state tax service and customs authorities, extra-budgetary funds, authorities for registration of documents on real estate and other authorized bodies that have the necessary information about the debtor enterprise and the property belonging to it;

file an application with the court for early termination of the performance of one's duties.

The judicial manager may also have other rights in accordance with the law.

The judicial manager is obliged to:

take measures to protect the debtor's property;

to form and maintain a register of creditors' claims;

analyze the financial condition of the debtor;

provide, upon request of the creditor, within ten days, information on the financial condition of the debtor and (or) its activities;

carry out actions and take measures to identify signs of false insolvency, concealment of insolvency or deliberate insolvency and report the identification

of such signs to the meeting of creditors, the court, the authorized state body and law enforcement bodies;

exercise control over the implementation of the debt restructuring plan of the natural person debtor;

to control the timely and full payment of funds to fully satisfy the claims of creditors by the natural person debtor;

to perform obligations imposed by judicial acts.

The judicial manager may have other duties in accordance with the law.

When conducting insolvency proceedings, the judicial manager is obliged to act reasonably in the interests of the debtor and creditors.

If the judicial manager has caused damage to the debtor, creditors and third parties due to failure to perform or improper performance of the duties assigned to him, such damage may be recovered from the judicial manager in court.

The commented article determines the rights and duties of the judicial manager and enshrines special ethical principles of its activity, according to which it is obliged to act in good faith and reasonably.

1. The judicial manager, alongside the head, is entitled to act both in its own name and in the name of the debtor; in so doing, in cases where it acts in its own name, the rights and duties arise for the debtor. The judicial manager acts in the interests of both the debtor and the creditors (part five of this article).

It follows from this that the judicial manager possesses a special status conditioned by the necessity of carrying out bankruptcy procedures and is an independent subject of law. The article enumerates the rights it may exercise when conducting bankruptcy procedures.

The judicial manager is obliged to convene a meeting of creditors upon their demand in the cases provided by law. This is carried out for informing creditors, discussing important matters with respect to the insolvent debtor and adopting joint decisions.

The judicial manager is entitled to apply to the court with claims and other applications without the prior payment of the state duty in the cases established by law. This is a procedural privilege granted for the effective performance of its duties.

The judicial manager has the right to remuneration in the insolvency case, which is paid in accordance with Article 26 of the Law.

The possibility of engaging qualified specialists at the expense of the debtor is of important significance for individual categories of bankruptcy cases, including specialized industries, large industrial enterprises, real estate and infrastructure facilities and diversified companies. In such cases, it may be necessary to engage auditors, accountants, legal consultants, engineers, architects and other specialists both for drawing up the balance sheet and for restructuring the business. If such

expenses exceed the limits agreed with the creditors, the judicial manager is obliged to obtain the consent of the meeting (committee) of creditors.

In law-enforcement practice, the judicial manager must also have the right to request information and documents from other bodies for the performance of his duties.

The judicial manager applies to centers of state services to obtain information on the debtor's property (real estate, transport, agricultural machinery and other assets); however, in practice it encounters difficulties owing to the fee-based nature of such services. In conditions of the absence of funds in the debtor's accounts, bankruptcy cases are sometimes commenced without a full identification of property, which leads to an insufficient formation of the liquidation estate and reduces the possibility of repaying the indebtedness, including obligations to the budget. Therefore, the judicial manager is granted the corresponding rights to obtain information and access to state services.

Obtaining information on the performance of the debt restructuring plan of a natural person is possible within the bankruptcy procedure; information on the course of the execution of the plan is provided to the judicial manager and creditors in accordance with the judicial act. This is necessary for control over the execution of the plan approved by the court and the meeting of creditors.

Where circumstances arise that impede the effective conduct of the bankruptcy procedure (unsatisfactory state of health, conflict of interests, absence of the necessary knowledge and experience, etc.), the judicial manager is entitled to apply to the court with an application for the early termination of the performance of its duties.

2. The judicial manager may also possess other rights granted to it by legislative acts in addition to the rights enumerated in part one of this article. For example, in each insolvency procedure, special additional rights are provided that the judicial manager may exercise (Articles 83, 98, 114, 144 of the Law provide additional rights of the judicial manager in the procedures of observation, judicial rehabilitation, external management and liquidation proceedings).

3. Part three of this article contains a (non-exhaustive) list of duties that the judicial manager is obliged to perform when carrying out insolvency procedures. This rule confirms that the activity of the judicial manager is aimed not only at protecting the interests of creditors but also at ensuring the rule of law.

The non-performance by the judicial manager of its duties, or their improper performance, if this has entailed the causing of harm to the debtor or creditors, may be a ground for its removal from the performance of its duties in accordance with part three of Article 25 of the Law.

In insolvency procedures, one of the international principles is the duty of the judicial manager and the court, taking into account the interests of the debtor and its employees, to preserve the overall value of the assets available for the satisfaction of creditors' claims.

This rule places on the judicial manager the duty of protecting the debtor's property (including preventing its loss, diminution or other impairment) with the aim of ensuring the proportional distribution of property among creditors.

The duty of preserving property is understood to mean the reasonable and continuous management and operation of the property (including the receipt of income from it) for the purpose of preserving its current value (the value of property as a going concern is, as a rule, higher than its liquidation value).

The judicial manager is obliged to maintain the register of creditors' claims in the procedure established by Article 14 of the Law, as well as to analyze the financial condition of the debtor.

Upon request, information on the financial condition and/or activity of the debtor must be provided within ten days. This duty provides creditors with broad possibilities for obtaining the necessary information from the judicial manager at any stage of the insolvency procedure.

The judicial manager conducts an analysis of the debtor's activity for the period of up to two years preceding the commencement of the insolvency case. If the debtor did not carry out activity during the said period, the analysis is conducted for the last two years of actual financial and economic activity in accordance with the Rules for Identifying Signs of False Insolvency, Concealment of Insolvency, and Intentional Insolvency, approved by Resolution of the Cabinet of Ministers No. 224 of 14 August 2013.

The identification of signs of fictitious insolvency, concealment of insolvency or intentional bankruptcy is carried out by the judicial manager in all cases and at all stages of an insolvency case commenced by the court upon the application of the debtor. If the assets were intentionally withdrawn (intentional bankruptcy) or the procedure was initiated where the debtor was in fact solvent (fictitious insolvency), the judicial manager is obliged to immediately report this to the law-enforcement bodies. Failure to perform this duty may entail the recognition of the judicial manager as an accomplice to the offense.

Control over the execution of the debt restructuring plan of a natural person is exercised by the judicial manager. It verifies the debtor's payments within the established time periods, tracks its major expenditures and analyzes transactions. If the debtor violates the conditions of the plan, the judicial manager reports this to the court, which may lead to the termination of the restructuring procedure.

Control over the timely and full repayment of debts by a natural person for the purpose of satisfying creditors' claims is part of the insolvency or debt restructuring procedure in Uzbekistan. The specific mechanism of such control depends on whether the debtor is recognized as solvent or insolvent.

The expression "to perform obligations imposed by judicial acts" in an insolvency case is understood to mean the legal duty of all participants in the process (the debtor, the judicial manager, creditors, controlling persons, etc.) to comply with the requirements established by judicial decisions within the insolvency procedure.

Such judicial acts may include, for example, decisions on the introduction of the observation procedure, the approval of the restructuring plan, the imposition of subsidiary liability, as well as decisions on disputes arising within the insolvency case, including acts of higher courts.

4. The judicial manager may also have other duties in addition to the duties provided by part three of this article. In particular, in accordance with part two of Article 53 of the Law, it is obliged to send information subject to publication in the insolvency case to the specially created printing body for placement in the mass media, to organize and hold the meeting of creditors, to ensure the drawing up of the minutes (Article 16 of the Law) and to perform the duties of the judicial manager provided by Articles 84, 99 and 144 of the Law.

5. Although the judicial manager is obliged to protect the rights of creditors and satisfy their claims (and also to bear liability for harm caused to creditors), it must act "reasonably in the interests of the debtor."

This provision establishes a "heightened standard" of the activity of the judicial manager. The matter concerns not only compliance with the norms of the law but also the adoption of decisions as a "good-faith manager" (prudent manager).

The judicial manager must not be guided exclusively by the recovery of funds in favor of creditors or exclusively by the preservation of the debtor. Its task is to protect the legitimate interests of both parties, that is, to ensure a balance of interests.

In judicial practice, " to act reasonably" means the following: *economy*—preventing the unjustified increase of the expenses of the procedure (for example, payment for engaged specialists); *promptness*—observance of the time periods established by law and the choice of the optimal time for the sale or restoration of assets; *professionalism*—reliance on the market situation and economic analysis when adopting decisions.

If creditors assert that they incurred harm owing to the actions of the judicial manager, the court assesses its conduct precisely by the criterion of "reasonableness": "how would another professional manager have acted in an analogous situation?" If the actions of the judicial manager are recognized as unreasonable (for example, it did not organize advertising of the sale of property or agreed to a price significantly below the market), it is obliged to compensate the harm caused. This provision is based on the principle of "fiduciary liability" (the duty of careful and good-faith management of another's property).

6. Judicial managers may, as a rule, be removed from office in the event of non-compliance with the established standards, the absence of qualification or the commission of unlawful actions (inaction).

This rule enshrines not only the administrative liability of the judicial manager (including the deprivation of the certificate) but also its property liability. There is a risk of financial liability for every unreasonable decision or action (or inaction).

Two principal forms of the causing of harm are distinguished: *non-performance of duties,* for example, if the property was not timely inventoried and was stolen or

if the period for recovering the receivables expired; *improper performance of duties,* for example, the sale of assets significantly below the market value (without engaging an appraiser) or the untimely submission of tax reporting, which entailed significant fines for the debtor.

The activity of judicial managers is carried out on the basis of the present Law, Resolution of the Cabinet of Ministers No. 765 of 12 September 2019, "On Measures to Organize the Activity of Judicial Managers," and the Regulation on the Procedure for Issuing a Qualification Certificate of a Judicial Manager, approved by Resolution No. 838 of 30 December 2025.

Article 24. Public Associations of Judicial Managers

Public associations of judicial managers are non-governmental, non-profit organizations that unite judicial managers on a voluntary basis.

Public associations of judicial managers must develop and maintain the professional level of judicial managers and promote the protection of their professional interests.

Public associations of judicial managers:

participate in the development of draft normative legal acts governing the activities of judicial managers;

protect the rights and legitimate interests of judicial managers in relations with state authorities, as well as republican executive authorities;

request from state authorities and republican executive authorities information necessary for the performance of their functions;

submit to the court a candidate for the position of judicial manager in the manner established by this Law;

develop and approve rules of professional ethics for judicial managers;

carry out rating assessments of the activities of judicial managers, monitoring their compliance with legislation and rules of professional ethics;

develop and submit for approval to the authorized state body training programs for judicial managers;

participate in the certification (re-certification) of judicial managers;

study and analyze the activities of their members.

Public associations of judicial managers may also exercise other powers in accordance with the law.

The commented article determines the system of self-governance of judicial managers and of professional public oversight, and also governs the goals and tasks of their organization. The said article is aimed at ensuring the institutional independence of the profession of judicial manager.

1. Professional associations of judicial managers are non-state non-commercial organizations that do not pursue the derivation of income (profit) as the principal aim of their activity and do not distribute the income (profit) received among their participants (members). Professional associations of judicial managers are created and carry out activity in accordance with the Law of the Republic of Uzbekistan "On Non-State Non-Commercial Organizations" and other normative legal acts.

The Association of Judicial Managers of Uzbekistan is the principal public association and closely interacts with the authorized body in maintaining the unified register of judicial managers and assessing their qualification. The commission under the Association carries out, on an ongoing basis, the rating assessment of the effectiveness of the activity of judicial managers. The Association, together with the Agency, participates in the development of training programs and test tasks for judicial managers.

2. The effectiveness of the activity of judicial managers mainly depends on their professional level. At the same time, judicial managers also have the right to the legal protection of their interests. For the purpose of resolving such matters, the Law provides that, in accordance with part two of the present article, professional associations of judicial managers operate, called upon to promote the development and maintenance of their professional level, as well as the protection of their interests.

3. For achieving their goals and performing the tasks assigned to them, public associations of judicial managers are granted certain powers specified in part three of the present article.

This rule determines the functional powers of public associations of judicial managers. These powers are aimed at the transition of the system from a model of "rigid state administration" to a model of "professional self-regulation." In particular, the recommendation and rating of a public association are the principal criteria when appointing a judicial manager. This makes it possible to prevent the appointment of "random" persons to complex cases.

An association, possessing knowledge of the industry's problems, participates in the development of drafts of normative acts governing the sphere of activity. The right to request information from state bodies allows the association to objectively analyze the activity of its members.

The code of professional ethics of judicial managers, approved by the association, is a document binding for execution. A violation of these rules may serve as a ground for exclusion from membership in the association and the deprivation of the certificate. This ensures the maintenance of the professional reputation and public trust in the judicial manager, its impartiality, the inadmissibility of supporting one party (the debtor or the creditor), as well as the transparency and accountability of activity, in which financial interest, personal connections, and other factors must not influence the decisions adopted.

Public associations, together with the authorized body, participate in conducting examinations, which ensures the transparency of the process and the reduction of corruption risks.

The rating assessment of the activity of judicial managers represents a qualitative assessment of their work on the basis of established criteria.

The purpose of such an assessment is to identify effective managers, exclude ineffective ones, and stimulate the improvement of the quality of work.

The criteria of assessment may include observance of the time periods for the completion of procedures, the level of satisfaction of creditors' claims, effectiveness, observance of lawfulness and the principles of fairness in the execution of judicial decisions, the number of complaints, and instances of professional errors and ethical violations.

4. A professional association of judicial managers is a legal entity and carries out activity on the basis of a Charter in accordance with the legislation. Proceeding from the provisions of Article 31 of the Law of the Republic of Uzbekistan "On Non-State Non-Commercial Organizations," professional associations of judicial managers, as non-state non-commercial organizations, are entitled to engage in entrepreneurial activity within the bounds corresponding to their charter goals. Professional associations of judicial managers may also possess other powers in accordance with the legislation.

In practice, such "other powers" include: *mediation and alternative dispute resolution*—associations may create mediation centers for settling disagreements between creditors and the judicial manager prior to applying to the court; *international cooperation*—establishing contacts and exchanging experience with foreign organizations of crisis managers (for example, INSOL International); *methodological support*—the development of special guidelines on insolvency matters in complex spheres (for example, banks or insurance companies).

See also: International Commentary, p. 729.

Article 25. Liability of the Judicial Manager

The judicial manager is liable in accordance with the law for failure to perform or improper performance of the duties assigned to him.

Persons participating in an insolvency case have the right to demand compensation from the judicial manager for damages caused as a result of his actions (inaction).

If failure to perform or improper performance of the duties imposed on the judicial manager in accordance with Article 23 of this Law has resulted in damage to the debtor or creditors, this may serve as grounds for releasing the judicial manager from the performance of his duties.

The commented article establishes the grounds for the liability of the judicial manager and the procedure for securing it.

1. The non-performance by the judicial manager of its duties, or their improper performance, entailing the causing of harm to the debtor or creditors, entails two consequences: the removal of the judicial manager from the performance of its duties (a disciplinary measure); the compensation of the losses caused (civil-law liability).

In addition, depending on the circumstances of the case, matters of criminal and administrative liability may also arise. For example, in the event of the identification of the bringing about of intentional insolvency or facts of theft of property.

In accordance with the provisions of the law, the judicial manager may be removed from the performance of its duties on other grounds as well, for example, upon its application or on the basis of a decision of the state body for insolvency affairs (Article 113 of the Law). This rule provides for the removal of the judicial manager for the non-performance or improper performance of the duties provided by parts three and four of Article 23 of the Law, as well as of other duties, that has entailed the causing of harm to the debtor or creditors.

The meeting of creditors and/or the state body for insolvency affairs may apply to the court with a request for the removal of the judicial manager from the performance of its duties.

Based on the results of considering the application, the court issues a ruling, which may be appealed in the procedure provided by Article 61 of the Law.

When determining the liability of the judicial manager, the court must also establish: whether the manager observed the principle of "reasonableness and good faith" (Article 23) in its actions; whether there is a cause-and-effect connection between the harm and the actions of the manager; whether the instructions of the committee (meeting) of creditors were observed.

2. By part two of the present article, the debtor and the persons participating in the insolvency case are granted the right to demand from the judicial manager compensation for losses caused to them as a consequence of its actions (inaction).

In the event that the judicial manager voluntarily refuses to compensate the harm caused to the debtor or a creditor, the recovery of losses may be carried out by judicial procedure.

In so doing, it should be especially noted that, in the event of the onset of liability, the judicial manager bears it, taking into account fault. When resolving the matter of liability, particular attention must be paid to establishing the cause-and-effect connection between the actions (inaction) of the judicial manager and the losses that arose.

In addition, part three of Article 22 of the Law indicates that persons who, in the previous performance of the duties of a judicial manager, caused harm to the debtor or creditors and did not compensate it cannot be appointed a judicial manager.

3. In accordance with the said norms of the Law, the judicial manager may be removed from the performance of its duties on other grounds as well, for example, upon its own application or on the basis of a decision of a state body.

This rule establishes liability in the form of the removal of the judicial manager from the performance of its duties for the non-performance or improper performance of its obligations that has entailed the causing of harm to the debtor or creditors.

The purpose of this rule is to prevent the further diminution of assets by the immediate removal of a manager that causes harm or displays a bad-faith attitude toward its duties. For example, if the judicial manager missed the limitation period for recovering receivables, as a result of which the enterprise did not receive 500 million soums, this is real harm and a sufficient ground for removal. Inaction is also expressed in cases where the manager delays the attachment of property, and during this period the property is lost or plundered—this likewise serves as a ground for removal.

The meeting of creditors and/or the state body for insolvency affairs may apply to the court with an application for the removal of the judicial manager.

The court, based on the results of considering the application, issues a ruling, which may be appealed in the procedure provided by the present Law.

See also: International Commentary, p. 731.

Article 26. Remuneration of the Judicial Manager

The amount and procedure for paying remuneration to the judicial manager for the performance of his functions shall be established by the meeting of creditors, based on the volume of work performed, approved by the court and paid from the property of the debtor, unless otherwise provided by agreement with creditors.

The applicant who has filed an application with the court to initiate insolvency proceedings against an individual must first transfer funds in the amount of seven times the minimum wage to the court's deposit account to pay the financial manager's remuneration.

Funds transferred to the court's deposit account are reimbursed from the assets of the individual debtor during the insolvency proceedings, in accordance with the procedure stipulated in part two of Article 221 of this Law. If the individual debtor has no assets, the financial manager's remuneration is limited to the funds transferred by the applicant to the court's deposit account, unless otherwise agreed upon at a creditors' meeting.

When applying the simplified insolvency procedure, unless otherwise agreed with the debtor, the costs of paying the judicial manager's remuneration is reimbursed by the applicant who filed the insolvency application against the debtor. An advance payment of seven times the minimum wage is made to the

court's deposit account for the judicial manager's remuneration. The judicial manager is paid for each completed case.

When insolvency proceedings are instituted against a natural person and/or a simplified insolvency procedure is applied at the request of a state tax authority, the costs of paying the judicial manager's remuneration shall be reimbursed by the state tax authority that filed the petition, using funds from the State budget. The amount of remuneration paid to the judicial manager shall be established by legislative acts and shall be paid in the manner prescribed by this article.

If the costs of paying the judicial manager's remuneration are not transferred to the court's deposit account, the court returns the application for initiating insolvency proceedings against the debtor.

When a debtor-natural person applies to the court to declare him insolvent, the court may defer the transfer of the remuneration paid to the financial manager to the court's deposit account.

Disputes regarding the payment of remuneration to a judicial manager are considered by the court.

By decision of the meeting of creditors, the judicial manager may be awarded additional remuneration based on the results of his activities in cases where:

accounts payable included in the register of creditors' claims have been fully repaid—in the amount of up to five percent of the amount of claims for repaid debt;

more than seventy-five percent of the claims of creditors included in the register of creditors' claims have been satisfied, in the amount of up to three percent of the total claims of the said creditors;

more than fifty percent of the claims of creditors included in the register of creditors' claims have been satisfied—in the amount of up to one percent of the total claims of the said creditors.

The additional remuneration for the case under consideration shall not exceed half of the total amount paid to the judicial manager for the given case.

If the debtor moves from the insolvency restoration procedure to the liquidation procedure, no additional remuneration is paid to the judicial manager for this period.

The commented article establishes the size of the remuneration paid to the judicial manager, as well as the procedure for its payment in accordance with part one of Article 23 of the Law (general provisions), Article 82 (temporary manager), and part two of Article 114 (external manager).

1. As a rule, remuneration to the judicial manager is paid at the expense of the debtor's property. In so doing, the determination of the size and procedure for the

payment of the remuneration falls within the competence of the meeting of creditors, and its approval—within the competence of the court.

The size of the remuneration may depend on the volume of work performed by the judicial manager, as well as on the value of the debtor's property. When determining the size of the remuneration, account must be taken of the value of the debtor's property and the volume of the work to be performed. In so doing, the remuneration of the judicial manager may not be lower than the size of the wages of the former manager of the debtor.

An exception is constituted by cases where the agreement with the creditors provides a different source of financing and the provisions of part one of the present article do not apply. Where the debtor has no property, the matter of the payment of remuneration to the judicial manager is also resolved by the creditors in an analogous manner. If no agreement is reached among the creditors on this matter, the costs of paying the remuneration are placed on the creditor that applied with the application to declare the debtor insolvent, by analogy with part five of Article 53 of the Law.

2. One of the requirements for filing an application with the court to commence an insolvency case with respect to a natural person is the deposit, into the deposit account of the court, of a sum equal to seven times the minimum wage.

The legislator introduced a system of advance payment (deposit), at the expense of which the remuneration of the judicial manager is guaranteed. Natural persons, as a rule, have no property to be realized. In the event of the absence of such funds in the deposit, financial managers would be compelled to work without payment, which could lead to the halting of the functioning of the system. This sum provides a minimum guarantee of the payment of the manager's remuneration.

3. The funds deposited are the guaranteed sum for the payment of the remuneration of the judicial manager in the insolvency case of a natural person. The said sum is subject to reimbursement at the expense of the property of the natural person. Proceeding from the content of the present rule, in the event of insufficiency of the property of the natural person, the deposit sum is not reimbursed. If the application to declare insolvency was filed by the natural person itself with respect to itself, the court may defer the deposit (part seven of the present article).

4. In the simplified insolvency procedure provided by Chapter 16 of the Law, a deposit is also made. The deposit sum must be made by the applicant that filed with the court the application to commence the insolvency case with respect to the debtor.

The simplified procedure is applied in cases where the debtor has no property or becomes insolvent in the process of liquidation. In such a situation, in order to ensure the payment for the labor of the judicial manager that manages an "asset-less" company, the duty of the applicant to finance the procedure is established. If the application to commence the case was filed by a creditor or by the tax service bodies, the duty to pay the manager's remuneration is placed on the corresponding applicant.

This means that if a creditor initiates a bankruptcy procedure with respect to an enterprise without property, it is obliged to take on the costs of the procedure,

including the payment to the judicial manager. Such a rule is aimed at preventing the unjustified or "abusive" initiation of insolvency cases.

5. Funds are also deposited when the insolvency procedure and/or the simplified insolvency procedure provided by Chapter 16 of the Law is applied with respect to a natural person. The deposit sum must be made by the applicant that filed the application to commence the insolvency case with respect to the debtor.

This rule establishes a special mechanism of financial incentivization of judicial managers in protecting state interests.

The expenses are covered at the expense of special earmarked funds of the State budget. The judicial manager performs the function of a "tax collector" for the state. The payment for its labor from the budget guarantees the active work of the judicial manager in the interests of the state.

6. If funds are not deposited into the deposit account of the court, the court returns the application to commence the insolvency case.

The return of the application does not deprive the applicant of the right to apply to the court again after the elimination of the identified deficiencies, including after depositing the necessary sum of funds into the deposit account of the court.

7. If the debtor is in a difficult financial position, the court is entitled to defer the payment of the remuneration to the financial manager. The principal purpose of this rule is to grant the right to judicial protection to persons who have indeed found themselves in an extremely difficult material position and have no possibility of paying the remuneration of the judicial manager.

8. When the court considers disputes connected with the payment of remuneration to the judicial manager, the parties may, in a timely and correct manner, understand their rights and duties, which promotes the achievement of an agreement between them.

The court resolves the dispute that has arisen, ensures observance of the principles of fairness, and exercises control over the lawfulness of the payment of the remuneration. In the course of such proceedings, the protection of the rights of the debtor, the creditors and the judicial manager is ensured.

9. A decision of the meeting of creditors may provide for the possibility of paying the judicial manager additional remuneration based on the results of its activity and may also determine the conditions of such payment.

In so doing, the establishment of additional remuneration for the judicial manager at the expense of the debtor's property does not conflict with the Law and, unlike the basic remuneration, does not require approval by the court (in accordance with part one of the present article).

These rules provide the most effective mechanism of material incentivization of the judicial manager—a "remuneration for result" (success fee) system. Its purpose is for the judicial manager to be interested not only in the formal conduct of the procedure but also in the maximum possible satisfaction of creditors' claims.

The legislator established three categories of additional remuneration depending on the result achieved:

up to five percent—in the event of full repayment of the indebtedness. This is the highest indicator of the effectiveness of the activity of the judicial manager and attests to the effective realization of assets or the successful financial recovery of the debtor;

up to three percent—if more than seventy-five percent of creditors' claims are satisfied;

up to one percent—if not less than fifty percent of creditors' claims are satisfied.

10. The Law establishes a restriction according to which "the additional remuneration must not exceed half of the total sum" paid to creditors. This rule is aimed at preventing situations in which the size of the additional remuneration of the judicial manager becomes unjustifiably high in comparison with the sum of funds received by creditors. For example, if creditors were paid 100 million soums in total, the additional remuneration of the judicial manager may not exceed 50 million soums, even if the calculation by the established percentage rates results in a larger sum.

11. If the measures for the recovery of the enterprise (judicial rehabilitation or external management) yielded no result and the proceedings transition to a liquidation procedure, the judicial manager is not paid any additional remuneration for that unsuccessful period. The purpose of this rule is to preclude the intentional protraction by the judicial manager of the procedure under the pretext of "restoring" the debtor's activity, when it is obvious that there are no prospects for its financial recovery.

Article 27. Expenses Connected with the Insolvency Case

Expenses related to insolvency proceedings shall be reimbursed from the debtor's property, unless otherwise provided by this Law.

In order to ensure the fulfillment of his rights and obligations, the judicial manager may pay persons engaged on a contractual basis for legal costs, state registration of the debtor's rights to real estate, inventory, property valuation, if necessary, the expenses of using the services of an auditor, auction costs, costs of transfer, storage of documents, as well as other costs associated with the conduct of the insolvency case.

The amount of payment for the services of persons engaged by a judicial manager in an insolvency case shall be established as a percentage of the book value of the debtor's assets (except for expenses provided for in Article 26 of this Law) calculated in relation to the base calculation value (hereinafter referred to as the BCV), if the book value amount is:

up to one thousand BCV—in the amount of no more than twelve percent of the book value of the debtor's assets;

from one thousand to five thousand BCV—in the amount of no more than ten percent of the book value of the debtor's assets;

from five thousand to ten thousand BCV—in the amount of no more than eight percent of the book value of the debtor's assets;

More than ten thousand BCVs—in the amount of no more than five percent of the book value of the debtor's assets. In this case, expenses must not exceed two thousand times the two-hundredth BCV.

For the purposes of this article, the book value of the debtor's assets is determined on the basis of the financial statements as of the last reporting date prior to the initiation of insolvency proceedings.

If it is impossible to determine the actual book value of the debtor's assets, it is determined based on the estimated value established by an appraisal organization. These rules do not apply to judicial rehabilitation and external management procedures.

Information on expenses related to the debtor's insolvency case is reflected in the plan for judicial rehabilitation, external management and liquidation, as well as debt restructuring and sale of property.

The expenses associated with the sale of the pledged property shall be borne by the secured creditor, unless otherwise determined at a meeting of creditors or a meeting of the creditors' committee.

The commented article establishes the procedure for paying the expenses arising in the consideration of the insolvency case. These expenses are aimed at ensuring the effective and transparent conduct of insolvency procedures, as well as at protecting the rights of the persons participating in the case.

1. The purpose of this rule is the clear determination of the source for covering the expenses necessary for conducting insolvency procedures.

The legislator places the duty to cover such expenses first and foremost on the debtor itself. The said expenses are paid out of turn, that is, before the satisfaction of creditors' claims.

The phrase "unless otherwise provided by this law" indicates the exceptions established by other articles of the Law (for example, Article 26). In particular: *where the simplified procedure is applied,* if the debtor has no property, the expenses are borne by the applicant (creditor); *if the application was filed by a tax body,* the expenses are covered at the expense of State budget funds; in the insolvency of natural persons, the expenses are covered at the expense of the funds deposited by the applicant into the deposit account of the court.

2. Among the expenses subject to payment within the insolvency case are:

judicial expenses—costs connected with the consideration of the case in court, including the payment of the state duty and other expenses necessary for carrying out judicial procedures;

expenses for the state registration of the debtor's rights to property—expenses connected with the registration of the debtor's right of ownership to property, which is necessary for its lawful realization or inclusion in the liquidation estate in the course of the insolvency procedure;

expenses for the inventory and valuation of property—costs of conducting the inventory and valuation of the debtor's property, necessary for determining the value of its assets and their subsequent realization for the purpose of satisfying creditors' claims. The inventory is conducted in accordance with the National Accounting Standard of the Republic of Uzbekistan (NAS No. 19) "Organization and Conduct of Inventory," approved by Order of the Minister of Economy and Finance of the Republic of Uzbekistan No. 141 of 14 June 2024 (registered on 12 August 2024, under No. 3548);

expenses for audit services—where necessary, the judicial manager is entitled to pay for the services of auditors to verify the financial documentation and reporting of the debtor;

expenses for conducting auction trading—if the debtor's property is to be sold by means of an auction, such expenses include the costs of organizing the trading, including the auction fee, advertising expenses and other administrative expenses;

expenses for the transfer and storage of documents—costs connected with the transfer, processing and storage of the documents necessary for conducting the insolvency case;

expenses for engaging specialists—the Law grants the judicial manager the right to engage, on a contractual basis, specialists for the performance of individual tasks, including the valuation of property, the conduct of an inventory, an audit and other works. The remuneration of such specialists may be paid at the expense of the funds connected with conducting insolvency procedures.

Notwithstanding the right to incur the said expenses, the judicial manager is obliged to observe two basic conditions: the corresponding actions must be objectively necessary for conducting the procedure and the size of the expenses must correspond to market prices.

Major expenses (for example, for conducting an audit) are usually agreed in advance with the meeting of creditors or the committee of creditors.

Upon completion of the procedure, the judicial manager submits a financial report on all expenses incurred. The court is entitled to refuse to reimburse expenses that are recognized as unfounded.

3. Expenses connected with the payment for the services of persons engaged by the judicial manager for carrying out its activity within the insolvency case may be included in the composition of the judicial expenses provided by this part and are subject to satisfaction out of turn.

This rule establishes the maximum size (limit) of the expenses for the payment for the services of specialists engaged by the judicial manager, such as attorneys, auditors, security organizations and other specialists.

The legislator proceeds from the principle: “the larger the asset, the lower the percentage of expenses should be.” The judicial manager, as a professional participant in the procedure, is obliged to choose the most rational and economically sound services.

When considering the report of the judicial manager, the court determines the book value of the debtor’s property and compares the sums paid to the engaged specialists under contracts with the maximum sizes of expenses established by law. In the event of exceeding the established limit, the court is entitled not to recognize the sum of the excess as expenses subject to reimbursement and to place it on the judicial manager.

4. Part four of the commented article establishes the “base point” for calculating the limit of expenses, that is, the book value of the debtor’s assets is determined on the basis of the financial reporting submitted to the tax bodies and statistics bodies as of the last reporting date preceding the commencement of the insolvency case. This rule is of exceptionally important significance for preventing disputes and ensuring the transparency of calculations.

If the debtor enterprise did not submit reporting for several years or the documents were lost, the judicial manager is obliged to first restore the accounting and draw up an “alternative balance sheet.” In such cases, the limit is calculated on the basis of the restored balance sheet.

At present, the economic courts are integrated with the database of the Tax Committee (my.soliq.uz). In the process of considering the application, the judge sees through the system the latest book value of the enterprise’s assets. This reduces the risk that the judicial manager will artificially overstate the value of the assets in order to “inflate” the sum of expenses.

5. In cases where it is impossible to determine the actual book value of the debtor’s assets, it is determined on the basis of the assessed value established by a valuation organization. In so doing, these rules do not apply to the procedures of judicial rehabilitation and external management.

If it is impossible to establish the actual book value of the debtor’s assets, their value is determined on the basis of a valuation conducted by a valuation organization.

6. The expenses of the insolvency case of the debtor include the expenses connected with the procedures of judicial rehabilitation, external management, realization of property and debt restructuring.

These expenses must be reflected in the judicial documents in accordance with the approved plan, as well as duly executed and precisely indicated in the financial reporting. In addition, the expenses arising in the course of these procedures must be commensurate with the insolvency case and the financial condition of the debtor.

7. In the event of the realization of pledged property, the expenses connected with its sale are borne by the creditor whose claims are secured by the pledge, unless otherwise established by a decision of the meeting of creditors.

Creditors whose claims are secured by a pledge have a preferential right to the satisfaction of their claims at the expense of the realization of the subject of the pledge; therefore, the duty to bear the expenses connected with its sale may be precisely placed on them.

As a rule, in the sale of pledged property (for example, a building pledged under a bank loan), the main part of the proceeds (in accordance with the legislation—80 percent and more) is directed straight to the pledge creditor (the bank).

Since the principal benefit from the realization of the property is received by the pledge creditor, it is fair to place on it also the expenses connected with the sale of such property (valuation, conduct of auction trading, etc.).

At the same time, the meeting of creditors or the committee of creditors is entitled to adopt a decision to cover the said expenses at the expense of the common property of the debtor. Usually, such an approach is applied in cases where, after the realization of the pledged property, part of the proceeds may be used to cover the common expenses of the insolvency case.

CHAPTER 3. REGULATION OF THE SPHERE OF INSOLVENCY

Article 28. Powers of the Cabinet of Ministers of the Republic of Uzbekistan in the Sphere of Insolvency

The Cabinet of Ministers of the Republic of Uzbekistan:

shall approve the uniform procedure for submitting the claims of the Republic of Uzbekistan as a creditor in insolvency proceedings in respect of monetary obligations and (or) obligations relating to taxes and duties;

shall approve the procedure for attestation, the qualification and professional requirements applicable to persons acting as judicial managers and the procedure for maintaining the unified register of judicial managers;

shall approve the procedure governing the activities of judicial managers;

shall determine the procedure for the formation and use of the funds of the rehabilitation fund;

shall establish the procedure for the realization of property;

shall approve the regulation on the authorized state body.

The Cabinet of Ministers of the Republic of Uzbekistan may also exercise other powers in accordance with the legislation.

The article under comment defines the powers of the Cabinet of Ministers in the coordination and effective implementation of relations connected with insolvency (bankruptcy) at the state level.

1. The first part of the article under comment defines the powers of the Cabinet of Ministers of the Republic of Uzbekistan in the following areas:

establishing the uniform procedure for presenting the claims of the state as a creditor. This procedure ensures that the state's monetary obligations and (or) claims relating to taxes and duties against the debtor are presented on the basis of uniform standards;

forming and overseeing the institution of judicial managers. In doing so, it establishes the procedure for organizing the activities of judicial managers, their rights and obligations, performance standards, reporting mechanisms and means of oversight, as well as the procedure for the attestation of judicial managers, the qualification and professional requirements and the procedure for maintaining the unified register. By Resolution of the Cabinet of Ministers No. 224 of 14 August 2013, the Rules for identifying signs of false insolvency, concealment of insolvency and deliberate insolvency were approved, as well as the Regulation on the procedure for issuing the qualification certificate of judicial managers, approved by Resolution No. 838 of 30 December 2025;

forming the rehabilitation fund and using its funds. The rehabilitation fund is a financial source used in carrying out solvency-restoration procedures; it is created for the purpose of financial stabilization. The establishment of this procedure

regulates the sources of the fund's formation, the directions for the use of its funds and the financing mechanisms; depending on the economic and financial situation in the country, it also determines the procedure for using the fund, which plays an important role in the process and ensures the consistent functioning of state bodies and financial mechanisms;

establishing the procedure for the realization of property. This procedure encompasses the methods of conducting auctions, transparency requirements, the use of electronic trading platforms and valuation and oversight mechanisms. This mechanism is of decisive importance for protecting the interests of creditors, since the sale of property at a fair and market value makes it possible to satisfy creditors' claims to the fullest extent. The Regulation, approved by the Resolution of the Cabinet of Ministers No. 188 of 18 April 2003, on the procedure for the valuation and realization of the property of enterprises undergoing restructuring, as well as enterprises in respect of which insolvency procedures have been applied;

regulating the activities of the authorized state body. By Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 23 of 11 January 2024, the Regulation on the Agency for the Management of State Assets of the Republic of Uzbekistan was approved. This body performs such functions as monitoring in the sphere of insolvency, collecting information, and analyzing data on the activities of enterprises with a state shareholding.

2. The second part of this article provides that the Cabinet of Ministers of the Republic of Uzbekistan may also exercise other powers in accordance with the legislation. This provision makes it possible to adapt to the dynamic development of the legislation, to take account of new needs and problems arising in practice, and to improve the procedures of regulation.

Thus, the powers of the Cabinet of Ministers in this sphere create the institutional foundation necessary for coordinating insolvency procedures at the state level, regulating them on the basis of uniform rules and ensuring their stable application in practice. These rules define the practical foundation of state policy in the sphere of insolvency.

See also: International Commentary, p. 733.

Article 29. Powers of the Authorized State Body

The Agency for the Management of State Assets of the Republic of Uzbekistan is the authorized state body.

The authorized state body:

shall monitor the financial condition of enterprises in whose charter fund (charter capital) the state holds a share, with the aim of identifying insolvent, loss-making and economically unviable enterprises, and shall organize the formation of an electronic database thereof;

shall apply to the court with an application to institute insolvency proceedings in respect of enterprises in whose charter fund (charter capital) the

state holds a share and (or) which have a debt to the Republic of Uzbekistan in respect of monetary obligations;

shall carry out the attestation of judicial managers and shall maintain the unified register of judicial managers;

shall approve the plans for pre-court rehabilitation, court rehabilitation and external management of enterprises in whose charter fund (charter capital) the state holds a share;

shall exercise oversight of the course of pre-court rehabilitation and the insolvency procedures of enterprises in whose charter fund (charter capital) the state holds a share;

shall monitor the insolvency process;

shall exercise oversight of the activities of judicial managers in accordance with the legislation, and shall apply to the court with an application for the release of a judicial manager from the performance of duties where a systematic or single gross violation of the legislation is identified in the manager's activities;

shall have the right to put forward candidates for judicial managers in the course of the examination of cases under the simplified insolvency procedure, as well as in carrying out the liquidation proceedings of enterprises in whose charter fund (charter capital) the state holds a share;

shall impose fines on the managers or other officials of enterprises whose financial condition is being monitored for the failure to submit or the untimely submission of materials concerning the financial and economic activities of those enterprises;

shall also exercise other powers in accordance with the legislation.

Decisions of the authorized state body taken within the limits of its powers shall be binding upon ministries, agencies, other republican bodies of executive power and legal entities and natural persons.

The article under examination defines the tasks and powers of the authorized state body—the Agency for the Management of State Assets of the Republic of Uzbekistan (hereinafter in the text referred to as the Agency)—which is the central institution of state coordination of insolvency processes.

1. This rule establishes the status of the Agency as the authorized state body.

The Agency monitors the activities of enterprises with a state shareholding in respect of which insolvency procedures are applied, and also approves the plans for court rehabilitation and external management. Through these powers, the protection of state interests is ensured; the financial stability of enterprises with a state shareholding is supported; measures to restore solvency are coordinated; and the effective functioning of the institution of judicial managers is ensured.

2. The second part of this article lists the powers of the authorized state body.

(a) The Agency monitors the financial condition of enterprises in whose charter fund (charter capital) there is a state shareholding.

The Agency carries out the systematic monitoring of the financial condition of such enterprises. The principal purpose of the monitoring is the timely identification

of insolvent, loss-making or economically unsound enterprises, as well as the formation of an electronic database.

(b) The Agency applies to the court with an application to institute insolvency proceedings in respect of enterprises having a state shareholding and (or) a debt in respect of monetary obligations to the Republic of Uzbekistan.

The Agency has the right to submit to the court applications for insolvency in respect of enterprises with a state shareholding or enterprises having a debt to the state.

Where an enterprise has a state shareholding, the state, through the authorized bodies, participates in taking decisions on its activities, the use of state funds and the assessment of its financial condition.

Enterprises with a state shareholding usually operate in strategically important spheres or sectors directly connected with the economic interests of the state (for example, energy, transport, public utilities and others).

A debt of an enterprise to the Republic of Uzbekistan means that it has failed to fulfill or has been unable to fulfill, in a timely manner, its monetary obligations to the state. In such cases, the state may apply the legal mechanisms provided for in order to take appropriate measures having regard to the financial condition of the enterprise.

The existence of a debt to the state may serve as a ground for applying to the court and initiating insolvency proceedings. In such situations, what is required is either the restoration of the enterprise's financial stability or, where that is impossible, the distribution of its property to settle accounts with creditors.

Applying to the court is the principal means of instituting insolvency proceedings. Where an enterprise has a state shareholding and (or) a debt in respect of monetary obligations to the state, the following procedures are carried out by means of an application to the court: the taking of a decision on the financial condition of the enterprise; the institution of proceedings in the insolvency case; and the appointment of a judicial manager on the basis of a judicial act. Where the court issues a decision on insolvency, a judicial manager may be appointed.

(c) carries out the attestation of judicial managers and maintains the unified register of judicial managers.

Assessing the level of professional training of judicial managers, establishing special rules for their work and ensuring the clear, reliable and stable organization of their activities contribute to the effective functioning of the system. This power is of considerable importance for the formation of a professional corps of managers. Its practical significance lies in the fact that the qualifications of persons acting as judicial managers are verified and that oversight of their activities is ensured through the register.

The attestation of judicial managers is the process of assessing their professional level and legal capacity. Following attestation, their activities are considered having regard to the role they play in financial processes, which makes it possible to take

well-founded and fair decisions. The certificate of a judicial manager is a document confirming the completion of attestation and compliance with the established qualification and professional requirements.

The verification of the qualifications of judicial managers includes an assessment of their financial and legal knowledge, as well as of their experience in the sphere of insolvency.

The unified register of judicial managers constitutes the totality of all data on judicial managers, their licenses, completion of attestation and work performed, which makes it possible to monitor their status.

The existence of a centralized database on judicial managers makes it possible to track their activities, the status of their attestation, and which enterprises they have worked with.

Through the unified register, it is possible to see which enterprises a given judicial manager has worked with, what the manager's activities were and what results were achieved. The establishment of clear rules and criteria for judicial managers ensures the fairness and transparency of the system. The register also makes it possible to track regularly the qualifications and experience of judicial managers, to identify their shortcomings and, where necessary, to refer them for retraining or repeat attestation.

The data contained in the unified register include: the surname, first name and patronymic of the judicial manager; information on the completion of attestation or on appointment; and the names of the enterprises in which the manager acts as a judicial manager.

(d) approving the conduct of pre-court rehabilitation, court rehabilitation and external management plans in respect of enterprises in whose charter fund (charter capital) there is a state shareholding.

This power is aimed at ensuring the balanced and coordinated implementation of measures for the financial recovery of enterprises with a state shareholding, both before the onset of a state of insolvency and after it arises.

In these procedures, a judicial manager is appointed, and plans for the repayment of the debt and the reaching of agreements with creditors are drawn up. Where an enterprise has a state shareholding in its charter capital, then, in the event of a risk of insolvency, the plans for pre-court rehabilitation, court rehabilitation and external management are subject to mandatory approval by the authorized state bodies.

The purpose of this mechanism is to assess the possibility of restoring the enterprise's solvency, to ensure the efficient use of state assets and to coordinate measures aimed at preserving an enterprise that has found itself in financial difficulty.

(e) exercises oversight of the pre-court rehabilitation procedures and the insolvency procedures of enterprises in whose charter fund (charter capital) there is a state shareholding.

This rule provides that the state must play an active role in preventing the insolvency of such enterprises or in protecting their interests in the course of bankruptcy procedures.

Enterprises with a state shareholding are among the strategically important entities of the national economy (energy, the oil and gas sector, transport and others), as well as among the structures connected with public interests or using significant volumes of state funds, subsidies and resources.

Accordingly, this oversight is aimed at: preventing uncoordinated rehabilitation procedures (plans implemented without the state's approval may run counter to its interests); protecting state interests (preventing the risks associated with the undervalued sale of assets or informal arrangements); ensuring compliance with the legislation (all rehabilitation and insolvency procedures must comply with the legislation in force); and assessing the possibility of preserving the enterprise (applying financial-recovery measures before a decision on liquidation is taken).

Such oversight activity is carried out by the authorized state bodies, including the Ministry of Economy and Finance, the Agency and other competent bodies. They analyze the financial statements of enterprises, examine and assess rehabilitation plans, monitor pre-court rehabilitation procedures and oversee the enforcement of judicial decisions.

Where an enterprise with a state shareholding encounters economic difficulties, is unable to fulfill its obligations in a timely manner, draws up anti-crisis plans or becomes involved in insolvency procedures, the state exercises oversight and coordination of these processes. In particular, where there is a possibility of preserving the enterprise's activities, measures for its recovery through pre-court rehabilitation may be drawn up.

(f) monitors the insolvency process.

This rule provides that the insolvency process must not remain without supervision. To that end, the authorized state body carries out monitoring activity.

Monitoring is the constant observation and analysis of, and, where necessary, the taking of measures of influence in respect of, a given process. The tasks of monitoring consist in analyzing how the insolvency procedure is being carried out: the realization of property, the repayment of the debt and other processes; the timely identification of violations of the legislation or conflicts of interest and the taking of appropriate measures; and the protection of state interests.

(g) exercises oversight of the activities of judicial managers in accordance with the legislation.

This rule is aimed at ensuring the lawful, transparent and objective carrying out of the activities of judicial managers, who play an important role in insolvency procedures.

The Agency exercises oversight of judicial managers' compliance with the legislation and of the proper performance by them of their duties. Where violations of the legislation are identified, the Agency has the right to suspend the validity of

their qualification certificate for a period of up to 6 months or to apply to the court with an application to terminate the validity of the certificate. In doing so, it is taken into account that the errors of a judicial manager may cause substantial harm to the interests of creditors, enterprises and the state.

(h) shall have the right to put forward candidates for judicial managers within the framework of the simplified procedure for the examination of insolvency cases, as well as in carrying out liquidation proceedings in respect of enterprises in whose charter fund (charter capital) there is a state shareholding.

The Agency proposes candidates for judicial managers in the examination of cases under the simplified procedure, as well as in the liquidation of enterprises with a state shareholding. This right is aimed at involving professional managers in the said procedures and at protecting state interests.

Where an insolvency case is examined under the simplified procedure, the authorized state body may submit to the court its own candidate for judicial manager in the course of the manager's appointment.

In the liquidation of an enterprise with a state shareholding, the right to participate in the selection of the judicial manager is of particular importance from the standpoint of protecting state interests. Accordingly, the authorized state body is also entitled to put forward a candidate for the position of judicial manager.

(i) imposes fines on the managers or other officials of enterprises for the failure to submit or the untimely submission of materials concerning the financial and economic activities of enterprises in respect of which the financial condition is being monitored.

In the event of the failure to submit or the untimely submission of materials concerning the financial and economic activities of enterprises under monitoring, the authorized state body has the right to apply financial sanctions. Responsibility is borne by the managers of the enterprises or other officials. This mechanism ensures the accountability and transparency of the activities of enterprises.

(j) exercises other powers in accordance with the legislation.

The Agency is also entitled to exercise other powers provided for by the legislation. The purpose of this rule is to adapt to the new legal and economic needs that arise, as well as to improve the insolvency system on a continual basis.

Where other powers are provided for this authorized body in laws and subordinate legislation, it is not confined solely to the functions listed above but also performs other tasks established by normative acts. In doing so, the principal condition is that such powers must be expressly provided for by the legislation. These powers, alongside the principal ones, may be exercised as "other powers in accordance with the legislation".

In addition to the powers indicated above, the authorized state body is also entitled to: participate in insolvency cases as a person participating in the case (both upon the submission of an application and where there is a state share in the debtor's charter fund) (Article 38 of the Law); participate in the meeting of creditors without

the right to vote (part 3 of Article 12 of the Law); put forward candidates for interim, external and liquidation managers irrespective of the existence of a state share in the debtor's charter fund (part 1 of Article 82, part 2 of —cb 111 and Article 142 of the Law); and submit applications for the introduction of court rehabilitation (part 3 of Article 92 of the Law) and external management (part 1 of Article 108 of the Law) in respect of enterprises with a state shareholding.

In exercising its powers, the state body for insolvency matters is guided by the Regulation on the Agency for the Management of State Assets of the Republic of Uzbekistan, approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 23 of 11 January 2024.

3. This rule provides for the binding nature of the Agency's decisions. Alongside the Cabinet of Ministers, management in the sphere of insolvency is also carried out by the authorized state body for insolvency matters, the Agency. Decisions taken by the Agency within the limits of its powers are binding upon ministries, agencies, other bodies of state administration and legal entities and natural persons.

The significance of this rule lies in the fact that it strengthens the institutional status of the Agency, ensures the implementation of a unified state policy and reduces inconsistencies in the carrying out of procedures.

This rule defines the legal status of the authorized state body, its powers in the sphere of insolvency, and the legal force of the decisions taken by it. The authorized state body, the Agency, is the body responsible for the state coordination, oversight and assurance of insolvency procedures. The binding nature of its decisions is aimed, first and foremost, at the effective organization of the insolvency process, the regulation of the activities of enterprises with a state shareholding and the assurance of lawfulness in the activities of judicial managers.

See also: International Commentary, p. 733.

CHAPTER 4. INSOLVENCY PROCEDURES AND PRE-TRIAL REHABILITATION

Article 30. Insolvency Procedures

When considering an insolvency case of a legal entity debtor, the following procedures shall apply:
observation;
judicial rehabilitation;
external management;
liquidation proceedings.
When considering an insolvency case of a debtor who is a natural person, the following procedures shall apply:
debt restructuring;
recognition of bankruptcy and sale of property.
When considering an insolvency case of a debtor who is an individual entrepreneur, the procedure of liquidation proceedings shall apply.

The commented article establishes that the procedures applied in insolvency proceedings differ depending on the legal status of the debtor. These procedures constitute a sequence of actions provided for by law and aimed at satisfying the claims of creditors and bringing the debtor out of a state of economic insolvency. According to their purpose, they are divided into procedures aimed at restoring solvency (judicial rehabilitation and external management) and liquidation procedures (declaration of bankruptcy and liquidation proceedings). At the same time, the following procedures are provided for legal entities: observation, judicial rehabilitation, external management and liquidation; for natural persons: debt restructuring and bankruptcy; and for individual entrepreneurs: liquidation procedures.

1. This provision establishes a system of legally regulated procedures applied when considering an insolvency case of a debtor that is a legal entity. These procedures are aimed at assessing the financial condition of the debtor legal entity and determining the possibility of preserving its activity.

Observation is the initial stage serving to analyze the financial condition of the debtor, to protect its property rights and to form the register of creditors' claims. Observation is the first judicial procedure applied from the moment the court initiates the case concerning insolvency. The observation procedure is a mandatory insolvency procedure applied by the economic court in respect of a debtor that is a legal entity from the moment of acceptance of the application to declare the debtor insolvent and until the transition to the subsequent procedure, for the purposes of ensuring the preservation of the debtor's property, conducting an analysis of its

financial condition, maintaining the register of creditors' claims and holding the first meeting of creditors.

Observation remains in effect until the first court hearing is held and the question of the further fate of the insolvent debtor is resolved. The choice of the subsequent procedure depends on the decision of the meeting of creditors. As a general rule, observation is introduced for a period of no more than two months (Article 50 of the Law); however, in certain cases it may be extended for a period of no more than one month. At the same time, for the purpose of the timely consideration of the case, it appears expedient for the temporary manager to carry out the observation procedure within the shortest possible time while observing all established requirements and procedures.

The observation procedure does not apply in simplified insolvency procedures or in the insolvency of a natural person (part two of Article 239 of the Law), since in such cases there is no need to carry out the measures of the observation procedure provided for by law nor any possibility of choosing a procedure other than liquidation proceedings. In addition, observation does not apply when considering an insolvency case of an individual entrepreneur (part two of Article 30 of the Law).

Judicial rehabilitation provides the opportunity to implement, under the control of the court, a set of planned measures aimed at restoring the debtor's solvency. *The term "sanation" derives from the Latin "sanatio" and means treatment or recovery.*[1]

Judicial rehabilitation is a procedure for the recovery and restoration of solvency introduced by the court on the basis of a decision of the meeting of creditors adopted following an application by the debtor, the founders (participants) of the debtor, the owner of the debtor's property or third parties, for the purpose of restoring the solvency of the debtor enterprise and satisfying the claims of creditors while management of the debtor's activity is retained by its manager.

The judicial rehabilitation procedure is introduced by the economic court for the purposes of the financial recovery of the debtor and the repayment of its indebtedness to creditors.

In general, "sanation" constitutes a system of financial, economic, technical, production and organizational-legal measures aimed at preventing a debtor legal entity from being declared bankrupt and at restoring its solvency, whereas "judicial rehabilitation" is a procedure in an insolvency case aimed at restoring the debtor's solvency.

During judicial rehabilitation, the measures for restoring the debtor's solvency include:

rehabilitation (full or partial transfer of the debtor's business to one or more legal entities, sale of part or all of the debtor's property, application of various forms of rehabilitation of legal entities);

[1] In Uzbek the word "sanatsiya"—"sanation" is used.

economic recovery (re-profiling of production, closure of low-profitability operations);

organizational recovery (replacement of the debtor's manager, temporary suspension of his powers, expansion of the functions of the rehabilitation manager);

recovery through the use of legal means (recovery of receivables, invalidation of transactions concluded to the detriment of the debtor's interests, securing the performance of the debtor's contracts, waiver of the debtor's claims in favor of another person, performance of the debtor's obligations by third parties, issuance of additional shares of the debtor).

External management, in turn, is aimed at restoring the economic activity of the debtor by temporarily transferring the management of the enterprise to a special manager for the purpose of the active financial recovery of the enterprise. External management is a procedure for the recovery and restoration of solvency introduced by the court on the basis of a decision of the meeting of creditors or an application by the authorized state body for insolvency matters.

The purpose of introducing the external management procedure is the implementation of measures aimed at restoring the debtor's solvency and preserving its business.

The formal (procedural) ground for introducing external management is a ruling of the economic court issued on the basis of a decision or petition of the first meeting of creditors, an application by the authorized state body in respect of enterprises with a state share in their property, or on the initiative of the court itself.

The substantive grounds for introducing the external management procedure may be divided into two groups: 1) the necessity and expediency of applying the external management procedure are confirmed by documents submitted together with the relevant application; 2) there is a real possibility of restoring the debtor's solvency.

External management is introduced for a period of twelve to twenty-four months (part three of Article 108 of the Law). Its purpose is likewise the restoration of the debtor's solvency and the satisfaction of creditors' claims. In doing so, the powers of the debtor's manager to manage the legal entity and dispose of its property are mandatorily transferred to the external manager.

If the above measures do not produce a result, *liquidation proceedings* shall be applied, within which the property of the debtor legal entity is realized, and the lawful claims of creditors are satisfied. Liquidation proceedings constitute a procedure applied by the court in respect of a debtor that is a legal entity for the purposes of the proportional satisfaction of creditors' claims, the release of the debtor from its obligations and the announcement of its liquidation.

Liquidation proceedings may conclude with an amicable settlement or with the termination of the insolvency case where the claims of creditors are fully satisfied, and there is a possibility of continuing economic activity. In addition, where there is a possibility of restoring the debtor's solvency, a transition to the external management procedure is permitted.

The objectives of liquidation proceedings are:

first, the formation of the liquidation estate and the proportional satisfaction of creditors' claims in the order of priority established by law;

second, the recognition as discharged of those debt obligations of the debtor that were not satisfied owing to the insufficiency of its property;

third, the preservation of the debtor's remaining property and the safeguarding of the property interests of creditors;

fourth, the termination of the debtor's activity as a result of the completion of the insolvency procedure.

2. Part two of the commented article provides for the procedures applied when considering an insolvency case of a natural person:

debt restructuring—a procedure applied within an insolvency case in respect of a natural person for the purpose of restoring its solvency and satisfying the claims of creditors;

declaration of bankruptcy and realization of property—a procedure applied within an insolvency case in respect of a natural person for the proportional satisfaction of creditors' claims.

Debt restructuring constitutes a set of legal mechanisms aimed at restoring the financial stability of a natural person by revising the debtor's existing monetary obligations, changing their structure, extending the periods for performance, granting a deferral or reducing the amount of payments for a specified period of time. As a result, the debtor is afforded the opportunity to perform its monetary obligations in stages, while creditors are provided with guarantees of the real and long-term satisfaction of their claims.

Where a debt restructuring plan has been approved by the court, the natural person shall repay the indebtedness in accordance with such plan.

At the same time, the debt restructuring plan of a natural person must comply with the following requirements: (a) as at the date of submission of the debt restructuring plan the debtor natural person must have a source of income; (b) prior to the date of acceptance of the application to declare the natural person insolvent, proceedings in cases concerning the bringing of the natural person to administrative or criminal liability for the commission of petty theft, the intentional destruction, damage or spoilage of property, or for indications of fictitious or deliberate insolvency must have been terminated; in addition, any conviction of the natural person for an intentional crime in the economic sphere must have been expunged or spent; (c) within the five years preceding the submission of the debt restructuring plan the natural person must not have been declared bankrupt and the property-realization procedure must not have been applied in respect of it; and (d) within the eight years preceding the submission of this plan no debt restructuring plan must have been approved in respect of the natural person.

In cases where it is established that there is no possibility of restoring the debtor's solvency, the procedure for declaration of bankruptcy and realization of property

shall apply. Within this procedure, the debtor's property is, in the manner established by law, subject to inventory and valuation and is put up for sale, and the proceeds are distributed among creditors in accordance with the established order of priority. This procedure is aimed at releasing the debtor from the burden of debt, creating the opportunity for the complete renewal of its economic activity and ensuring the legal protection of the interests of creditors.

3. Part three of the commented article defines the legal essence and objectives of the procedure applied when considering an insolvency case of an individual entrepreneur. The application of liquidation proceedings in respect of an individual entrepreneur has its own particular features. In the absence of objections on the part of the creditors, the court may approve a debt repayment plan developed by the entrepreneur itself (part two of Article 229 of the Law). In this case, the proceedings in the case may, for the purpose of satisfying creditors' claims, be suspended for a period of up to two months. If, as a result of the implementation of the said plan, all creditors' claims are satisfied, the proceedings in the case shall be terminated (part five of Article 229 of the Law). The debtor is thereby afforded the opportunity to avoid being declared insolvent and to continue carrying out entrepreneurial activity. Since the restoration of the debtor's solvency depends solely on the existence of a debt repayment plan that can realistically be implemented, the debtor individual entrepreneur must objectively assess the possibility or impossibility of implementing such a plan. Where repayment of the indebtedness is impossible, the individual entrepreneur is declared insolvent and released from the performance of its remaining obligations, with the exception of obligations to compensate for harm caused to the life and health of a creditor as well as other obligations relating to particular categories of claims (part one of Article 237 of the Law).

This mechanism makes it possible to terminate the activity of the individual entrepreneur, to settle its financial obligations and at the same time to ensure the protection of the rights of creditors.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On Certain Issues of the Application by Economic Courts of the Provisions of the Law of the Republic of Uzbekistan 'On Insolvency'"

53. In considering an insolvency case concerning a natural person, the procedures provided for by part two shall apply, and in the case of an individual entrepreneur—part three of Article 30 of the Law.

See also: International Commentary, p. 736.

Article 31. Extrajudicial Procedures

Extrajudicial procedures may include the pre-trial rehabilitation or the voluntary liquidation (cessation of activity) of the debtor.

The commented article defines the legal essence and scope of application of extrajudicial procedures, providing for mechanisms to settle relations connected with insolvency before the commencement of judicial proceedings. In doing so, it establishes the types of extrajudicial procedures that may be applied in respect of the debtor. According to this article, pre-trial rehabilitation and voluntary liquidation are not among the procedures of insolvency. At the same time, they are inextricably linked to insolvency proceedings and have an auxiliary significance.

Pre-trial rehabilitation is applied before the initiation of an insolvency case in respect of the debtor and is aimed at restoring its solvency, that is, it pursues the same purpose as the rehabilitation procedures. However, unlike judicial rehabilitation and external management, the court does not take part in pre-trial rehabilitation.

The rules governing voluntary liquidation are regulated by Articles 53–56 of the Civil Code of the Republic of Uzbekistan, by the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of Shareholders' Rights," as well as by other normative legal acts defining the legal status of various types of legal entities. Voluntary liquidation presupposes the cessation of the debtor's activity on its own initiative in the manner established by law and the proper performance by it of its obligations.

See also: International Commentary, p. 737.

Article 32. Ground for Pre-trial Rehabilitation

Pre-trial rehabilitation shall be carried out before the initiation of an insolvency case.

In the event that indications of insolvency arise as provided for in part one of Article 5 of this Law, the manager of the debtor shall be obliged to notify in writing the founders (participants), the management bodies of the debtor or the owner of the debtor's property thereof.

For the purpose of preventing insolvency, prior to the filing with the court of an application by the founders (participants), the management body of the debtor or the owner of the debtor's property to declare the debtor insolvent, measures aimed at the financial recovery of the debtor shall be taken. Measures aimed at the financial recovery of the debtor may also be taken by creditors or other persons on the basis of an agreement concluded with the debtor.

The commented article establishes the grounds for pre-trial rehabilitation and treats it as an opportunity to carry out financial recovery measures upon the

appearance of indications of insolvency before recourse to the court. In doing so, the manager of the debtor is obliged to notify the founders, participants, management bodies or the owner of the property in writing, and it is further provided that the corresponding measures may be taken by creditors or other interested persons on the basis of an agreement concluded with the debtor.

1. Pre-trial rehabilitation shall be carried out before the court initiates an insolvency case. Article 62 of the Law enshrines an exceptional provision according to which, in respect of an enterprise whose authorized fund includes a state share, the question of applying pre-trial rehabilitation may be resolved after the court has initiated an insolvency case. In this case, the insolvency proceedings shall be terminated in connection with the conduct of the pre-trial rehabilitation.

2. It is established that, in the event that indications of insolvency appear in the financial condition of the debtor, the timely notification of interested persons is a duty of the manager. The obligation of the manager of the debtor to send a written notification creates a legal basis for carrying out pre-trial rehabilitation measures, ensuring financial recovery and protecting the rights of creditors.

Both legal entities and natural persons may act as founders (participants) of the debtor, management bodies or the owner of the debtor's property. The timely notification of the founders (participants) of the debtor, the management bodies or the owner of the debtor's property, as well as the taking by them of measures aimed at preventing insolvency and at the financial recovery of the debtor, is of considerable importance.

3. The pre-trial rehabilitation procedure is introduced before the initiation of an insolvency case for the purpose of preventing the debtor's insolvency. This provision enshrines legal mechanisms for the prevention of insolvency and provides the opportunity to implement effective measures aimed at preserving the debtor's financial stability.

Accordingly, before recourse to the court with an application to declare the debtor bankrupt, the founders (participants) of the debtor, the management bodies or the owner of the debtor's property may take measures aimed at improving the financial condition of the debtor. As a rule, for the purpose of the debtor's financial recovery, a special business plan is developed which reflects the planned measures and the expected results.

In doing so, the said measures may, where necessary, also be carried out by creditors or other interested persons on the basis of an agreement concluded with the debtor. Such an arrangement creates legal guarantees for the prompt, effective and systematic organization of the financial recovery process without the intervention of the court and for the prevention of insolvency.

Article 33. Object and Subjects of the Legal Relations of Pre-Trial Rehabilitation

The object of pre-trial rehabilitation is a debtor which is a legal entity.

The subjects of pre-trial rehabilitation may be the founders (participants) of a debtor which is a legal entity, the owner of the debtor's property, state bodies and other persons.

The commented article defines the object and the subjects of the legal relations connected with pre-trial rehabilitation. According to it, the object towards which the financial recovery measures are directed is recognized to be a debtor that is a legal entity, while the subjects are its founders (participants), the owner of the property, state bodies and other interested persons who, within this process, perform the functions of legal and financial support, coordination and control.

1. The object of pre-trial rehabilitation is the debtor. The designation of a legal entity debtor as the object of pre-trial rehabilitation ensures the implementation of financial recovery measures directed at a specific subject of this legal mechanism. This creates the possibility of a comprehensive assessment of the property of the legal entity, its economic activity and its solvency, and of carrying out measures for their restoration without the intervention of the court, in an effective and legally sound manner.

In addition, pursuant to the Regulation "On the Procedure for Conducting Pre-trial Rehabilitation with the Provision of State Support," approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 708 of 28 October 2024, the object of pre-trial rehabilitation conducted with the provision of state support is an enterprise that has indications of insolvency. The said Regulation establishes a classification of the objects of pre-trial rehabilitation conducted with the provision of state support, whereby the enterprises subject to pre-trial rehabilitation as a matter of priority include:

enterprises producing vital food and non-food consumer goods as well as medicinal products;

enterprises ensuring the maintenance of the defense capability and security of the State;

enterprises of the basic industries (mining, energy, metallurgical, chemical and other industries) that occupy an important place in the development of the economy of the Republic;

enterprises producing competitive, export-oriented and import-substituting products;

enterprises ensuring the production of modern high-performance equipment and the introduction into the branches of the economy of new, advanced and resource-saving technologies;

town-forming enterprises and enterprises equated to them.

When conducting pre-trial rehabilitation in respect of agricultural enterprises, the Law of the Republic of Uzbekistan "On the Rehabilitation of Agricultural Enterprises" shall also apply. According to this Law, the objects of rehabilitation are agricultural enterprises operating at a loss that are insolvent and in a state of economic insolvency.

In doing so, the pre-trial rehabilitation is conducted before the initiation of an insolvency case of the agricultural enterprise and consists in restoring its solvency and economic potential and in creating conditions for the effective conduct of its activity in the future.

2. Part two of the commented article establishes that the law does not limit the range of persons that may act as subjects of pre-trial rehabilitation. The subjects that may participate include the founders (participants) of a debtor that is a legal entity, the owner of the debtor's property, state bodies, and other persons. In particular, the Regulation "On the Procedure for Conducting Pre-trial Rehabilitation with the Provision of State Support," approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 708 of 28 October 2024, likewise provides that the founders (participants) of an enterprise that has indications of insolvency, the owner of the enterprise's property, state bodies and other persons may be subjects of pre-trial rehabilitation conducted with the provision of state support.

The Law of the Republic of Uzbekistan "On the Rehabilitation of Agricultural Enterprises" provides that the owners of the property of agricultural enterprises, creditors or other legal entities and natural persons may act as subjects of rehabilitation.

The said subjects perform coordinating, supervisory and supporting functions for the purposes of restoring the debtor's financial stability, preventing insolvency and protecting the interests of creditors.

Article 34. Principal Measures of Pre-trial Rehabilitation

The principal measures of pre-trial rehabilitation are:

the full or partial buy-out of overdue debts;

the re-profiling of production towards the output of competitive products;

the engagement of highly qualified specialists from outside;

the training, retraining and upgrading of the qualifications of personnel;

the provision of financial assistance by legal and natural persons interested in restoring the debtor's solvency and continuing its activity;

an agreement between the debtor and creditors aimed at reaching an arrangement between them on the deferral and (or) installment payment of the sums due to creditors or on a discount on the debts in order to continue the debtor's activity;

the deferral of the payment of taxes and duties and of the repayment of loans for the period of the pre-trial rehabilitation;

the reorganization of a debtor which is a legal entity.

The pre-trial rehabilitation procedure may also include other measures.

The conduct of pre-trial rehabilitation with the provision of state support shall be carried out on the basis of a decision of the body authorized by the Cabinet of Ministers of the Republic of Uzbekistan.

The procedure for conducting pre-trial rehabilitation with the provision of state support shall be regulated by law.

When conducting pre-trial rehabilitation with the provision of state support, a rehabilitation account in soum and (or) in foreign currency shall be opened for the debtor at its servicing bank, with the suspension of the previously operating accounts. The procedure for the use of the rehabilitation account shall be determined by law.

The commented article provides that the principal measures of pre-trial rehabilitation are aimed at restoring the financial stability of a legal entity debtor and at the continuation of its activity. Such measures include the repayment of overdue indebtedness, the re-profiling of production, the engagement of qualified specialists, the training of personnel, the provision of financial assistance, the revision of the terms of settlement with creditors, the deferral of the payment of taxes and duties, and the rehabilitation of the legal entity.

This article defines the legal, economic and organizational mechanisms of pre-trial rehabilitation, the set of corresponding measures and the procedure for their implementation with state support.

1. Pre-trial rehabilitation defines the principal measures for the recovery of the debtor, and these measures may, conditionally, be the following:

Economic measures—the full or partial repayment of overdue indebtedness by buying it out, the re-profiling of production for the purpose of the output of competitive products, and the provision of financial assistance by legal entities and natural persons interested in restoring the debtor's solvency and continuing its activity.

In the course of the full or partial buy-out of overdue indebtedness, the long-term debt obligations of the debtor are repaid, whereby its financial stability is restored, and the claims of creditors are satisfied in part or in full.

When production is re-profiled towards the output of competitive products, through the adaptation of production processes and types of products to the requirements of the market, the economic activity of the debtor is enhanced, and opportunities to generate income are created.

The provision of financial assistance by legal and natural persons interested in restoring the solvency and continuing the activity of the debtor is carried out in the form of investments, loans or grants for the purpose of continuing the activity and preserving the financial stability of the debtor.

Legal measures—consist in the conclusion of an agreement between the debtor and creditors aimed at the continuation of the debtor's activity, including the deferral

and (or) installment payment of the sums payable to creditors or the granting of a discount (forgiveness of part of the debt). Provision is also made for the deferral of the performance of obligations in respect of mandatory payments and the repayment of loans for the period of the pre-trial rehabilitation.

Reaching an arrangement with creditors on the deferral of payments, their payment by installments or the partial write-off of indebtedness constitutes a mechanism for the renegotiation of obligations between the debtor and creditors aimed at restoring the debtor's solvency and ensuring the stable continuation of its activity.

The deferral of the payment of taxes and fees and of the repayment of loans for the period of the pre-trial rehabilitation is a measure to reduce the financial burden on the debtor and to temporarily suspend payments, which contributes to the restoration of its activity and the prevention of insolvency.

Organizational measures—consist in the engagement of highly qualified specialists from outside, the training and retraining of personnel, and the rehabilitation of a debtor–legal entity.

In doing so, the engagement of highly qualified specialists makes it possible to improve the quality of products and the efficiency of production through the engagement of the necessary competent personnel, which contributes to ensuring the economic stability and competitiveness of the debtor.

The training, retraining and upgrading of the qualifications of employees are aimed at improving the quality of labor resources, enhancing efficiency and ensuring the stable functioning of the organization.

The rehabilitation of a debtor–legal entity is a mechanism aimed at enhancing the efficiency of its activity, restructuring its obligations and stabilizing its operation.

When conducting pre-trial rehabilitation with state support, the following assistance measures may be provided:

permission to open a rehabilitation account at the servicing bank with the suspension of the previously operating accounts of the enterprise that has indications of insolvency;

the provision of financial support in the form of guarantees when obtaining loans from commercial banks or in the course of negotiations with creditors;

cooperation with international financial institutions and foreign organizations on the implementation of enterprise-support projects and the organization of technical and advisory assistance;

the conservation of unused fixed assets and unfinished construction projects;

other support measures provided for by law.

2. This part of the article provides for the possibility of applying additional measures in the pre-trial rehabilitation procedure, in addition to the principal measures expressly enshrined in law.

Additional measures are applied to strengthen the debtor's financial stability, to prevent insolvency and to satisfy the interests of creditors fairly, and to ensure the

effective and competitive continuation of the debtor's activity through the modernization of production, the upgrading of the qualifications of personnel and the strengthening of financial control.

The pre-trial rehabilitation procedure may also include other measures, in particular the pre-trial rehabilitation of the debtor with state support. Their application makes it possible to prevent the debtor from being declared bankrupt.

3. The mechanism of state support for pre-trial rehabilitation ensures the participation of the State in restoring the financial stability of a debtor that is a legal entity and in continuing its activity, as well as the exercise of the lawful powers of the State in this sphere. This process is carried out on the basis of a decision of the authorized body determined by the Cabinet of Ministers, that is, the state body acts as the party coordinating the rehabilitation, exercising control and providing financial support. From a practical standpoint, this mechanism makes it possible, without judicial intervention and with the support of the State, to stabilize the debtor's activity, restore its solvency and protect the interests of creditors.

Pursuant to the Regulation "On the Procedure for Conducting Pre-trial Rehabilitation with the Provision of State Support," approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 708 of 28 October 2024, pre-trial rehabilitation may be carried out with or without the participation of state bodies, on a repayable or non-repayable basis, including on a competitive basis.

The decision to conduct pre-trial rehabilitation with state support of an enterprise that has indications of insolvency shall be taken by the body authorized by the Cabinet of Ministers—the Agency for the Management of State Assets of the Republic of Uzbekistan (hereinafter, the Agency).

4. The procedure for carrying out pre-trial rehabilitation with state support must be clearly enshrined in law, since it provides the legal basis and guarantees in the process of restoring the debtor's financial stability, restoring its solvency and protecting the interests of creditors. The principal purpose of conducting pre-trial rehabilitation with state support is the financial recovery of a debtor that has indications of insolvency and the restoration of its solvency.

By Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 708 of 28 October 2024, the Regulation "On the Procedure for Conducting Pre-trial Rehabilitation with the Provision of State Support" was approved, which regulates the matters of the financial recovery of debtors with indications of insolvency and the procedure for restoring their solvency.

This Regulation does not extend to the pre-trial rehabilitation of agricultural enterprises carried out in accordance with the Law of the Republic of Uzbekistan "On the Rehabilitation of Agricultural Enterprises."

Pre-trial rehabilitation with state support is conducted in respect of an enterprise with indications of insolvency before the court initiates an insolvency case and provides for the creation of conditions for restoring the enterprise's solvency and its subsequent effective activity.

Pursuant to paragraph 12 of the said Regulation, the decision to conduct pre-trial rehabilitation with state support of an enterprise with indications of insolvency shall be taken by the Agency for the Management of State Assets.

The ground for taking a decision to conduct pre-trial rehabilitation with state support of an enterprise with indications of insolvency is an application submitted to the Agency by the manager of such enterprise or by another person authorized to act on its behalf.

In doing so the enterprise may apply for this service either in person through the Centre of State Services or in electronic form through the Single Portal of Interactive State Services of the Republic of Uzbekistan (SPISS), having first registered on it.

The Regulation also provides that the manager of the enterprise or the person authorized to act on its behalf has the right to refuse to receive the service for the introduction of pre-trial rehabilitation with state support during the process of its provision. In such a case, the consideration of the application shall be discontinued. If, however, the decision to introduce pre-trial rehabilitation with state support has already been taken, the said decision shall be subject to cancellation.

After the introduction of the pre-trial rehabilitation procedure with state support, the management of the enterprise and its management bodies shall bear responsibility for the implementation of the measures aimed at the financial recovery of the enterprise.

5. Part five of this article provides that, when carrying out pre-trial rehabilitation with state support, the accounts of the debtor at its servicing bank are suspended, and a separate rehabilitation account is opened in soum and (or) in foreign currency, which ensures legal and financial control. This mechanism guarantees that funds are directed exclusively to pre-trial rehabilitation measures, that the claims of creditors are satisfied fairly and that, in the process of restoring the debtor's financial stability, their effective use is ensured.

In doing so, on the basis of a decision of the Agency for the Management of State Assets, a rehabilitation account in the national and (or) foreign currency shall be opened for the enterprise in respect of which pre-trial rehabilitation with state support has been introduced.

Within one working day of the receipt of the application, the servicing bank shall suspend the operation of card No. 2 and of all other accounts of the enterprise in respect of which the conduct of pre-trial rehabilitation with state support has been introduced at that bank, and shall transfer the funds available on them to the rehabilitation account of the enterprise. In doing so, the enterprise's demand deposit account in foreign currency continues to function in the previous regime, while the right to dispose of it passes to the enterprise in respect of which pre-trial rehabilitation with state support has been introduced.

Pursuant to the Regulation "On Cashless Settlements in the Republic of Uzbekistan," approved by the annex to the Resolution of the Board of the Central Bank of the Republic of Uzbekistan No. 3/12 of 15 February 2020 and registered

with the Ministry of Justice of the Republic of Uzbekistan on 13 April 2020 under No. 3229, card No. 2 is an off-balance-sheet account on which a record is kept of payment documents not paid within the established time.

The debiting of funds from the rehabilitation account is permitted only on the basis of payment orders of the enterprise in respect of which pre-trial rehabilitation with state support has been introduced.

Current payments and payments in accordance with the debt repayment schedule are made from the settlement (rehabilitation) account on the basis of payment orders of the enterprise in respect of which pre-trial rehabilitation with state support is being conducted.

Operations on the demand deposit account in foreign currency of the enterprise in respect of which pre-trial rehabilitation with state support has been introduced are carried out in the manner established by the regulatory acts of the Central Bank governing the functioning of this account, on the instructions of the enterprise undergoing the pre-trial rehabilitation procedure.

The functioning of the rehabilitation account shall cease upon the expiry of the established period for conducting the pre-trial rehabilitation or in the event that the Agency takes a decision on the early termination of the conduct of pre-trial rehabilitation with state support.

See also: International Commentary, p. 737.

Article 35. Period for Conducting Pre-Trial Rehabilitation with the Provision of State Support

Pre-trial rehabilitation of the debtor with the provision of state support shall be introduced for a period of twelve to twenty-four months.

This article establishes the period for conducting pre-trial rehabilitation with state support. The said period is necessary for restoring the debtor's financial stability, restoring its solvency and satisfying the claims of creditors, from both a legal and a practical standpoint. The clear determination of the period makes it possible to plan the measures within the rehabilitation with state support, to ensure the targeted use of financial resources and their monitoring, and contributes to the stabilization of the debtor's activity and the prevention of insolvency.

Pre-trial rehabilitation of an enterprise with state support shall be introduced on the basis of a decision of the authorized body on the consideration of the relevant applications for a period of twelve to twenty-four months.

The Agency may take a decision to extend the period for conducting pre-trial rehabilitation with state support (for example, where the established period is fourteen months) for a period not exceeding the overall established maximum period.

In addition, in accordance with Article 13 of the Law of the Republic of Uzbekistan "On the Rehabilitation of Agricultural Enterprises," the rehabilitation of an agricultural enterprise shall be introduced for a period of up to twenty-four months. In doing so, the said Law does not establish a minimum period for conducting pre-trial rehabilitation with state support. In the cases provided for by law, the extension of this period by twelve months is permitted.

Article 36. Termination of Pre-trial Rehabilitation with the Provision of State Support

The pre-trial rehabilitation procedure with the provision of state support may be terminated in connection with the establishment of its ineffectiveness.

This article establishes the grounds for the termination of pre-trial rehabilitation with state support. Such grounds include:

the expiry of the period for conducting the pre-trial rehabilitation;

the discovery of the ineffectiveness of conducting the pre-trial rehabilitation.

If the results of monitoring establish that the conduct of pre-trial rehabilitation with state support is ineffective (in particular, if the business plan and (or) the debt repayment schedule are not fulfilled for three consecutive quarters), or if the period for conducting the pre-trial rehabilitation expires, or if the tax authority terminates early the effect of the deferral or instalment payment of taxes, the Agency shall take a decision to terminate the conduct of pre-trial rehabilitation with state support.

After the Agency takes a decision to terminate pre-trial rehabilitation with state support, a copy of this decision shall, no later than three working days, be sent to the commercial bank servicing the enterprise, to the tax authority and to the enterprise in respect of which the pre-trial rehabilitation procedure has been terminated.

From the date of submission to the servicing bank of a copy of the Agency's decision on the early termination of the conduct of pre-trial rehabilitation with state support, the functioning of the rehabilitation account shall cease, after which it shall continue to operate as the main demand deposit account.

In addition, the law provides for the right of the manager of the enterprise or the person authorized to act on its behalf to refuse to receive the service for the introduction of pre-trial rehabilitation with state support at any stage of its processing. In this case, the consideration of the application shall be discontinued. If, however, the decision to introduce pre-trial rehabilitation with state support has already been taken, such decision shall be subject to cancellation.

CHAPTER 5. CONSIDERATION OF INSOLVENCY CASES BY THE COURT

Article 37. Grounds for Initiating an Insolvency Case

An insolvency case may be initiated by the court where the signs provided for in part one of Article 5 of this Law are present, except in the cases provided for by this Law.

Proceedings in an insolvency case shall be initiated on the basis of an application by creditors, the debtor or persons authorized by this Law.

The ground for applying to the court with an application to initiate an insolvency case and to apply one of the procedures for restoring solvency is the debtor's temporary insolvency.

The ground for applying to the court with an application to initiate an insolvency case against the debtor and to declare it bankrupt, as well as to commence liquidation proceedings, is the debtor's permanent insolvency.

Evidence confirming the validity of the creditor's claims, including a court decision that has entered into legal force, evidence of the debtor's acknowledgment of these claims and a notary's writ of execution, shall constitute the ground for the creditor to apply to the court with an application to initiate an insolvency case against the debtor and to declare it bankrupt, as well as to commence liquidation proceedings.

The ground for the state tax service authority to file an application to initiate an insolvency case against the debtor is the measures taken to recover arrears of taxes and duties.

This article defines the grounds for initiating an insolvency case and introducing the corresponding proceedings, the grounds for declaring the debtor temporarily or permanently insolvent, and the evidence that must be submitted by the creditor in order to initiate an insolvency case against the debtor and declare it bankrupt. It also provides that the ground for the tax authority to apply to the court with an application to initiate the debtor's insolvency case is the measures taken to recover arrears of taxes and duties.

1. Part one of this article establishes that an insolvency case may be initiated by the court only when the signs provided for in part one of Article 5 of the Law are present. These signs evidence the debtor's temporary or permanent insolvency.

At the same time, the Law provides that the provisions of Article 5 do not apply to the consideration of insolvency cases under the simplified procedure, nor to the consideration of insolvency cases of natural persons and individual entrepreneurs.

2. An insolvency case shall be initiated on the basis of an application by a person entitled to apply to the court in accordance with Article 7 of the Law (the debtor, a creditor, the state tax service authorities, the authorized state body, and its territorial subdivisions). This matter is set out in greater detail in the commentary to Article 7 of the Law.

3. Applying to the court in the event of the debtor's temporary insolvency: Under this provision of the Law, if the debtor is in a state of temporary insolvency, it is entitled to apply to the court with an application to initiate an insolvency case and to apply one of the procedures for restoring its solvency.

This provision is intended to afford the debtor the opportunity to overcome the economic difficulties that have arisen. Temporary insolvency is a state in which an enterprise or person is currently unable to perform its obligations yet retains a real possibility of restoring its financial stability in the future.

After an insolvency case is initiated, the court appoints a temporary manager in respect of the debtor. Based on the results of the analysis of the debtor's financial condition, the temporary manager prepares an opinion on its financial position. If, in the course of the analysis, signs of temporary insolvency are identified, the opinion shall indicate the existence of grounds for introducing one of the procedures for restoring solvency. In such a case, the court, on the basis of this opinion, may consider not the question of declaring the debtor bankrupt, but rather the application of one of the rehabilitation procedures aimed at financial recovery and the restoration of its activity, such as rehabilitation or external management. This mechanism has been introduced for the purpose of preserving the debtor's economic activity and jobs and ensuring proportionate protection of the interests of creditors.

4. Initiating a case on the basis of permanent insolvency: If the debtor's permanent insolvency is established, this constitutes a ground for applying to the court with an application to initiate an insolvency case against it, to declare it bankrupt, as well as to commence liquidation proceedings.

Permanent insolvency is a state in which the debtor's financial situation has steadily deteriorated, he has been unable to meet his obligations for a long time, and his assets are insufficient.

In accordance with Article 82 of the Law, the temporary manager, based on the results of the analysis conducted, prepares an opinion on the debtor's financial condition. Where signs of permanent insolvency are identified, the opinion shall indicate whether or not there is a possibility of restoring its solvency.

In such a situation, the court considers not only the questions relating to the possible restoration of the debtor's activity, but also the questions of the sale of its property, the satisfaction of creditors' claims, and the conduct of liquidation procedures. This mechanism is aimed at terminating the activity of economically nonviable entities and ensuring the stability of the economic system.

5. Part five of this article establishes the grounds for a creditor to apply to the court with an application. Under the Law, a creditor intending to apply with an application to initiate an insolvency case against the debtor or to declare it bankrupt is obliged to submit evidence confirming the validity of its claims.

Such evidence may include a court decision that has entered into legal force, a document confirming the debtor's acknowledgment of the debt, and a notary's writ of execution.

This requirement ensures that creditors cannot file unfounded applications against an entity carrying out economic activity. At the same time, it guarantees that the court admits insolvency cases for proceedings only where there are clear and duly documented grounds.

6. The right of the state tax service authorities to file an application. The Law also grants the state tax service authorities the right to apply to the court with an application to initiate an insolvency case against the debtor. The ground for such an application is the ineffectiveness of the measures taken to recover arrears of taxes and duties.

If the state tax service authority, having applied compulsory recovery measures in the manner prescribed by law, has been unable to recover the debt from the debtor, it is entitled to apply to the court with an application to initiate an insolvency case against it.

This mechanism is aimed not only at protecting the interests of the state, but also at identifying dishonest or inefficiently functioning entities within the economic system and at bringing order to their financial activity.

The provisions of the Law set out above clearly define the legal grounds for initiating an insolvency case and the powers of the entities participating in it. The following principal objectives flow from their content: establishing the debtor's actual financial condition and distinguishing between temporary and permanent insolvency, preventing abuse of bankruptcy procedures, ensuring balanced protection of the interests of creditors and the state, preserving economically viable business entities, and applying liquidation procedures only in case of the debtor's complete financial collapse.

See also: International Commentary, p. 738.

Article 38. Persons Participating in an Insolvency Case

The persons participating in an insolvency case are:

the debtor;

the judicial manager;

creditors, from the moment they assert their claims against the debtor in the manner established by this Law;

the authorized state body;

the person that has provided security for the debtor's obligations.

The following may participate in an insolvency case: the representative of the employees of the legal entity debtor, the representative of the founders (participants) or the owner of the debtor's property, the representative of the debtor—an individual entrepreneur, the representative of the meeting of creditors (the creditors' committee) and other persons.

The persons participating in an insolvency case may, in the course of any procedure applied in the insolvency case, apply to the court with a motion for the appointment of an expert examination for the purpose of identifying signs that led to false insolvency, concealment of insolvency, or deliberate insolvency.

This article addresses the questions relating to the range of persons participating in an insolvency case. In particular, it defines the persons participating in the insolvency proceedings, as well as the procedure for the participation therein of the representative of the employees of the debtor which is a legal entity, the representative of the founders (participants) of the debtor or the owner of the debtor's property, the representative of the individual entrepreneur debtor, the representative of the meeting of creditors (the creditors' committee) and other persons. In addition, the Article governs the questions relating to the right of the said persons to apply to the court with a motion for the appointment of an expert examination, and also defines the cases in which such a motion may be filed within the framework of the consideration of an insolvency case.

1. The classification of a subject of the legal relations arising in the field of insolvency as a person participating in an insolvency case gives rise, for that subject, to the procedural rights and obligations provided for in Article 35 of the EPC. The said persons are full-fledged subjects of the procedural legal relations within the framework of the court's consideration of an insolvency case and the implementation of the insolvency procedures provided for by law. The procedural rights and obligations of the persons participating in an insolvency case are specified by the provisions of the Law and are determined with regard to the particularities of proceedings in this category of cases.

1.1. The debtor is a legal entity or individual entrepreneur unable to satisfy creditors' claims under monetary obligations and (or) to perform its obligations in respect of mandatory payments.

The debtor, as a person participating in the case, when filing an application to declare himself bankrupt may also participate as an applicant when the creditor(s) and authorized bodies have claims against him with the aim of declaring him bankrupt.

1.2. The judicial manager (the temporary manager, the rehabilitation manager, the external manager, the liquidation manager) is deemed a person participating in an insolvency case from the moment of its appointment by the court.

1.3. Creditors are deemed persons participating in an insolvency case from the moment they assert their claims against the debtor in the manner established by law. Creditors may assert their claims against the debtor in two forms. First, a creditor is entitled to apply to the court to declare the debtor bankrupt, thereby acting as the initiator of an insolvency case against the debtor. Second, within the framework of an already-initiated case, a creditor may assert its claims against the debtor for the purpose of participating in the meeting of creditors, having its claims included in the register of creditors' claims, and the subsequent satisfaction of these claims. The procedure for asserting such claims is governed by Article 116 of the Law.

1.4. The authorized state body is a specialized state body in the field of regulating the legal relations arising in insolvency cases of enterprises in whose charter fund

(charter capital) there is a state share, as well as of other persons. Its powers are defined by Article 29 of the Law.

It should be noted that the authorized state body is recognized as a person participating in an insolvency case in cases where it itself applies to the court with an application to initiate an insolvency case, as well as where a case has been initiated against a debtor in whose charter fund (charter capital) there is a state share. In this regard, it is immaterial whether the case was initiated on the initiative of this body or upon the application of another person.

The provision set out in part one of Article 148 of the EPC, which enshrines the right of the prosecutor, state bodies, and other persons to apply to the court for the purpose of protecting the rights and legitimate interests of legal entities and citizens, as well as the interests of society and the state, does not apply to insolvency cases.

Accordingly, if the said persons apply to the court with an application to initiate the debtor's insolvency case in the interests of the debtor itself, a creditor, or the state tax and customs service authorities, such an application shall be returned in accordance with paragraph 2 of part one of Article 155 of the EPC. If, however, the application has already been admitted by the court for proceedings, it shall be left without consideration in accordance with paragraph 3 of Article 107 of the EPC.

1.5. Persons that have provided security for the debtor's obligations are third parties that guarantee the debtor's performance of its obligations to the creditor. They are subdivided into the following types: the surety; the guarantor (a person providing a guarantee: as a rule, a bank or insurance organization; it differs from a surety in that it assumes an independent obligation); the pledgor (a person providing its property as a pledge to secure the debt; it may not necessarily be the borrower); the insurer (which secures the performance of the debtor's obligations under an insurance contract); the joint-and-several debtor (co-debtor) and others.

2. Part two of this article provides for other persons who may participate in an insolvency case in the manner established by law, in addition to those specified in part one of the Law.

The representative of the debtor's employees is entitled to participate in an insolvency case provided that it is elected by the meeting of the debtor's employees, as well as on the basis of a power of attorney executed in accordance with Chapter 10 of the Civil Code and § 2 of Chapter 6 of the EPC. The representative of the employees acts in the interests of the employees and represents their interests in the course of the insolvency proceedings. The representative of the debtor's employees has the right to demand a copy of the debtor's application to declare it bankrupt, but only where it was elected before the debtor filed such an application. It is also entitled to apply to the court with complaints where disputes arise with the judicial manager regarding the amount and composition of claims for the payment of wages and severance pay to persons working under an employment contract (Article 60 of the Law). It should be borne in mind that the employees themselves do not have the right to file such objections.

The founders (participants) of the debtor or the owner of the debtor's property may be participants in an insolvency case, since, in accordance with the Law on Insolvency, they, like creditors, have the right to assert against the debtor claims for the allocation of a share. This part affords the representative of the founders (participants) of the debtor or the representative of the owner of the debtor's property the opportunity to participate in an insolvency case as a person participating in the case, for the purpose of protecting their rights and legitimate interests in the cases provided for by law. The representative of the founders (participants) of the debtor or of the owner of the debtor's property has the right to receive a copy of the debtor's application to declare it bankrupt only where it was elected before the debtor filed such an application. The representative of the founders (participants) of the debtor or of the owner of the debtor's property is also entitled to appeal to the court against the actions (omissions) of the judicial manager if they infringe the rights and legitimate interests of the founders (participants) of the debtor or of the owner of the property. In addition, such a representative is entitled to apply to the court with a motion for the introduction of judicial rehabilitation, as well as to participate in the case from the moment the corresponding application is filed with the court, provided that there are attached to it the minutes of the general meeting of the debtor's founders indicating the list of persons who voted for the introduction of rehabilitation, the judicial rehabilitation plan, the debt repayment schedule and documents confirming security for the performance of the said schedule.

The representative of the meeting of creditors (the creditors' committee) is also vested with the right to participate in an insolvency case. Such a representative may be a person elected by the meeting of creditors as the person authorized to sign a settlement agreement with the debtor, and the representative participates in the case as a person involved in the proceedings.

In addition to the said procedural rights, the persons participating in an insolvency case, including the authorized state body, the representative of the debtor's employees, the representative of the founders (participants) or the owner of the debtor's property, the representative of the individual entrepreneur debtor, the representative of the meeting (committee) of creditors and other persons (for example, third parties), have the right to participate in the meeting of creditors (see the commentary to part three of Article 10 of the Law).

Article 39. The Debtor's Application

The debtor's application to initiate an insolvency case against it shall be filed with the court in written or electronic form and shall be signed, respectively, by the manager of the debtor which is a legal entity, the debtor who is an individual entrepreneur, the natural person debtor, or their representatives.

The debtor's application to initiate an insolvency case against it must specify:

the name of the court to which the application is filed;

the name of the applicant (surname, first name, patronymic) and its location (postal address), email address (if any);

the amount of creditors' claims under monetary obligations acknowledged by the debtor;

the amount of the debtor's indebtedness for compensation for harm to the life or health of employees, for remuneration of labor, and severance pay payable to the debtor's employees;

the amount of remuneration payable under copyright contracts;

the amount of arrears of taxes and duties;

the substantiation of the inability to satisfy creditors' claims in full;

information on statements of claim against the debtor admitted by the courts for proceedings, as well as on enforcement documents submitted for indisputable (without acceptance) write-off;

information on the property held by the debtor, including monetary funds and accounts receivable;

the numbers of the debtor's bank accounts and the postal address of the bank;

the list of attached documents.

The application of the individual entrepreneur debtor concerning its insolvency shall also specify information on the debtor's obligations not connected with entrepreneurial activity.

The debtor is obliged to send a copy of the debtor's application to the creditors and other persons participating in the insolvency case. If, before the debtor's application is filed, a representative of the founders (participants) or of the owner of the debtor's property or a representative of the debtor's employees has been elected (appointed), a copy of the debtor's application shall also be sent to those persons.

This article establishes the requirements for the debtor's application to initiate an insolvency case against it, defines the information that must be specified in such an application, as well as the procedure for sending this application to the persons participating in the insolvency case.

1. Part one of this article establishes that the debtor's application may be filed with the court in written or electronic form. It follows from this that the debtor is entitled to choose, on its own, one of the said forms of applying to the court. If the debtor wishes to file the application in written form, it shall be submitted to the court through the court registry or sent by postal communication. When applying to the court in electronic form, the applicant may use the electronic judicial services through the Portal of Interactive Services of the Supreme Court of the Republic of Uzbekistan. In such cases, the application and the documents attached to it shall be sent to the court in the form of electronic documents.

The application shall be signed by the manager of the debtor which is a legal entity (in the event of the liquidation of the legal entity by the liquidation commission in the person of its chairman or by the liquidator) or by the debtor itself who is an

individual entrepreneur. *The legislator also* provides for the possibility of the application being signed by a representative of the debtor on the basis of a power of attorney. In accordance with Article 61 of the EPC, a representative's authority to conduct a case before the court must be specified in a power of attorney issued and executed in the manner prescribed by law. A power of attorney on behalf of a legal entity must be signed by its manager or by another person vested with such authority by the constituent documents, and certified by the seal of the legal entity (if any).

It should also be noted that, if the debtor's application is signed by a representative on the basis of a power of attorney, the power of attorney or a duly certified copy thereof must be attached to the application. Since Article 64 of the EPC provides for the court's obligation to verify the authority of the persons participating in the case and their representatives, the judge, when considering the application, is obliged to verify whether the representative's authority has been executed in accordance with the requirements of Article 63 of the EPC.

2. The Law also establishes requirements for the content of the debtor's application. Unlike the creditor's application, the requirements for the debtor's application are governed in greater detail. The provision of part two of Article 39 of the Law contains a list of the mandatory information that must be specified in the debtor's application. In particular, the application must contain: the name of the court to which the application is filed; the name of the applicant (surname, first name, patronymic) and its location (postal address); email address (if any); the amount of creditors' claims under monetary obligations acknowledged by the debtor; the amount of the debtor's indebtedness for compensation for harm caused to the life or health of employees, for the payment of wages and severance pay payable; the amount of remuneration payable under copyright contracts; the amount of arrears of taxes and duties; the grounds for the impossibility of fully satisfying creditors' claims; information on the admission by the courts for proceedings of statements of claim against the debtor, as well as on enforcement documents submitted for the indisputable (without acceptance) write-off of monetary funds; information on the property held by the debtor, including monetary funds and accounts receivable; the numbers of the debtor's bank accounts and the postal address of the servicing bank; and the list of attached documents.

The Law requires that the debtor's application specify the amount of claims to which it does not object. This is because, when admitting the application, the court must establish the existence of indebtedness in an amount exceeding the sum provided for in Article 195 and part one of Article 228 of the Law. Even if the debtor applies to the court on the basis of Article 8 of the Law, which does not require the existence of indebtedness in the amount provided for in Article 195 and part one of Article 228 of the Law, the court must nonetheless have at its disposal information on the state of the debtor's indebtedness when deciding the question of admitting the application to declare it bankrupt.

The debtor's application must also specify the amounts of the following claims: for compensation for harm caused to life and health; for the payment of wages to the debtor's employees and severance pay upon dismissal; for the payment of remuneration under copyright contracts; in respect of the debtor's mandatory payments and other monetary obligations to creditors. The said information is included in the application so that the court, the judicial manager, the creditors, and other interested persons may obtain complete information on the composition and amount of the debtor's obligations. The enumerated types of claims are mandatory information that must be contained in the debtor's application to declare itself bankrupt. At the same time, the debtor is entitled to specify in its application other indebtedness that it has, indicating the amount thereof (part three of this article).

The debtor's application must also specify the grounds for its inability to satisfy creditors' claims. This is done so that the court, the manager, and the creditors are provided with the necessary information on the causes of insolvency, which makes it possible to choose the corresponding procedures applied to the debtor after the initiation of the insolvency case. Such information is also significant for establishing the corresponding ground, including in cases where, in accordance with part one of Article 5 of the Law, there is a situation of temporary insolvency in which the obligations are not performed within three months from the moment they fall due, and the debtor applies to the court with an application to declare it bankrupt. It should be noted that, under the second paragraph of part one of Article 9 of the Law, if "the satisfaction of the claims of one or several creditors leads to the impossibility of fully performing monetary obligations and (or) obligations in respect of taxes and duties to other creditors," the manager of the debtor or the individual entrepreneur is obliged to apply to the court with an application for a declaration of bankruptcy. The information provided is necessary in order to verify the existence of the said grounds for applying to the court.

The debtor's application must also necessarily contain information on the statements of claim admitted by the courts for proceedings against the debtor, as well as on the enforcement and other documents submitted for the indisputable (without acceptance) write-off of monetary funds.

If, in the course of the consideration of a case in claim proceedings, it is established that an insolvency case has been initiated against the respondent, the proceedings in the economic case shall be left without consideration on the basis of paragraph 9 of Article 107 of the EPC, if the claim asserted against the respondent must, in accordance with the law, be considered within the framework of the insolvency case.

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11. If, after an insolvency case has been initiated, a statement of claim (an application for the issuance of a court order) is filed with the court by a creditor for the recovery from the debtor of indebtedness that arose before the filing of the application to initiate the insolvency case, the statement of claim (application) shall be refused admission for proceedings on the basis of paragraph 1 of part one of Article 154 of the EPC.

If the said circumstances are established after the statement of claim has been admitted for proceedings, the statement of claim (application) shall be left without consideration on the basis of paragraph 9 of Article 107 of the EPC.

This rule shall also apply where, during the consideration by the court of first instance of a case for the recovery of indebtedness against the respondent, an application to initiate an insolvency case is filed with the court and is admitted by the court for proceedings.

The indication of the existence of enforcement and other documents submitted for the indisputable (without acceptance) write-off of monetary funds is necessary so that the court that has admitted the application for proceedings may send the ruling initiating the insolvency case to the compulsory-enforcement authorities for the purpose of suspending the enforcement proceedings. In addition, "if there are grounds to believe that the foreclosure on the debtor's property will make it impossible for the debtor to carry out economic activity" (paragraph five of part one of Article 9 of the Law), the debtor is entitled to apply to the court with a corresponding application. Accordingly, information on the enforcement documents is necessary for the court in order to verify the existence of such grounds.

Other enforcement documents under which recovery is carried out in an indisputable (without acceptance) manner are understood to mean the collection orders of the tax and customs authorities, as well as of other authorized state bodies which, in accordance with the Regulation "On Cashless Settlements in the Republic of Uzbekistan" (registered by the Ministry of Justice of the Republic of Uzbekistan on 13 April 2020 under No. 3229), are granted the right to issue collection orders for the without acceptance write-off of monetary funds from the debtor's bank accounts.

It should be borne in mind that the information on property, monetary funds, and accounts receivable specified in the application must correspond to the analogous data reflected in the debtor's balance sheet as of the latest reporting date and attached to the application. The concept of accounts receivable is defined by paragraph 2 of the Decree of the President of the Republic of Uzbekistan of 12 May 1995 No. UP-1154 "On Measures to Increase the Responsibility of Managers of Enterprises and Organizations for the Timeliness of Settlements in the National Economy." At the same time, penalties, other punitive sanctions, and amounts of losses recoverable in

favor of the debtor, including on the basis of judicial acts that have entered into legal force, do not constitute accounts receivable. As for monetary funds, the application must specify all monetary funds held in the debtor's bank accounts, as well as funds placed on bank deposits and cash held in the enterprise's cash desk.

In addition, in practice, the debtor's application often also specifies other information of significance for the proper consideration of the insolvency case, in particular information on enforcement documents which, in accordance with Article 40 of the Law of the Republic of Uzbekistan "On the Enforcement of Judicial Acts and Acts of Other Bodies," were not enforced and were returned to the recovering party, as well as on enforcement documents under which recovery is to be made in favor of the debtor itself.

3. In accordance with this provision, an individual entrepreneur, when applying to the court with an application to be declared insolvent, is obliged to specify not only information on the indebtedness that arose in connection with the carrying out of entrepreneurial activity, but also information on its personal obligations. Such obligations may include, for example, alimony payments, personal indebtedness under credit contracts, as well as obligations to compensate for harm caused to the life or health of citizens. The indication of this information is necessary so that the court may comprehensively assess the debtor's overall financial position, determine the volume of all its obligations, and ensure fair protection of the rights and legitimate interests of creditors.

4. The debtor's obligation to send a copy of the application is one of the key principles of insolvency proceedings—the principle of transparency and the informing of all interested persons. This provision comprises two independent rules. The first rule is the notification of creditors and other persons participating in the case. This enables creditors to prepare in good time to protect their rights, eliminates the element of surprise in the judicial process and ensures observance of the principle of procedural equality of the parties. The second rule is the notification of the debtor's internal representatives. This concerns the representative of the founders (participants) of the debtor, who represents the corporate interests, as well as the representative of the employees, who represents the interests of the labor collective. The said persons express the interests of various groups connected with the enterprise's activity and are entitled to participate in the insolvency procedures, raise objections regarding the restructuring plan, and monitor observance of the statutory order of priority for satisfying the employees' claims for the payment of wages and other mandatory payments.

This affords creditors time to prepare their claims, gather documents and prepare for the judicial process, while for employees the insolvency proceedings directly affect their jobs and wages. Therefore, it is important, from the standpoint of social significance, that their representative be informed from the earliest stage.

See also: International Commentary, p. 739.

Article 40. Documents Attached to the Debtor's Application

Attached to the debtor's application to initiate an insolvency case against it, in addition to the documents provided for by the Economic Procedural Code of the Republic of Uzbekistan, shall be documents confirming the existence of the indebtedness, as well as the debtor's inability to satisfy creditors' claims in full, and other circumstances that served as the ground for the debtor's application.

The following shall also be attached to the debtor's application to initiate an insolvency case against it:

the constituent documents of the debtor which is a legal entity, documents on the state registration of the legal entity or individual entrepreneur, as well as a copy of the natural person's passport;

a list of the debtor's creditors and debtors with a breakdown of the accounts payable and accounts receivable, indicating the location (postal address) and email address (if any) of the debtor's creditors and debtors;

the balance sheet or documents replacing it of the debtor which is a legal entity as of the latest reporting date;

documents on the composition and value of the property of the natural person debtor individual entrepreneur;

the decision of the founders (participants) or of the owner of the property of the debtor which is a legal entity on the debtor's applying to the court with an application to initiate an insolvency case against it;

the minutes of the meeting of the debtor's employees at which a representative of the debtor's employees was elected to participate in the consideration of the insolvency case, if such a meeting was held before the filing of the application to initiate the insolvency case.

The original or certified copies of the documents specified in parts one and two of this article shall be attached.

This article defines the content of the documents which, in accordance with the EPC and the Law, must be attached to the debtor's application to initiate an insolvency case against it.

1. First and foremost, the documents provided for by the EPC are to be understood as the documents specified in Article 149 of the EPC. These include documents confirming payment of the state duty and postal costs in the established manner and amount, as well as documents confirming the sending of a copy of the application and the documents attached to it to the creditor (creditors) and third parties.

If the application is signed by a representative of the debtor, a power of attorney confirming the authority of the person who signed the application to sign it must be attached to it.

Documents confirming the existence of the debtor's indebtedness are to be understood as evidence of the acknowledgment of creditors' claims, payment demands accepted by the debtor, collection orders of the tax authorities, as well as

judicial acts that have entered into legal force on the recovery of the amount of indebtedness from the debtor.

Documents substantiating the debtor's inability to satisfy creditors' claims in full may include the materials of the inventory of the debtor's property, an audit opinion, and other documents evidencing the debtor's lack of sufficient assets, property, and monetary funds.

Documents confirming other circumstances on which the debtor's application is based may include, for example, a document confirming that the debtor is among the city-forming enterprises or organizations equated to them.

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52. When considering applications to initiate an insolvency case of a city-forming enterprise or an enterprise equated to it, the courts should be guided by the Regulation on the Procedure for Classifying Enterprises as City-Forming Enterprises and Enterprises Equated to Them, approved by the resolution of the Cabinet of Ministers of the Republic of Uzbekistan of 30 April 2015 No. 107.

2. Part two of this article provides that, upon receipt by the court of an application to declare the debtor bankrupt, the judge is obliged to consider the question of the possibility of applying the provisions of the Law to that debtor. The Law applies only to legal entities (with the exception of legal entities carrying out activity at the expense of the state budget, political parties, and religious organizations), individual entrepreneurs and natural persons (see the commentary to part two of Article 2). Accordingly, this provision requires that the constituent documents of the legal entity, as well as documents confirming the state registration of the legal entity or individual entrepreneur, be attached to the application.

The charter (regulation) and (or) the constituent agreement may be submitted as the constituent documents of a legal entity.

The document confirming the state registration of a legal entity or individual entrepreneur is the certificate of state registration issued by the registering authority in the established manner and in the established form. With respect to a natural person, a copy of the passport or ID card shall be attached to the application.

The decision of the founders (participants) of the debtor on applying to the court to declare the debtor bankrupt is attached as evidence of the adoption of the corresponding decision by the said entities, since such a requirement is provided for in part two of Article 8 of the Law. The form of such a decision depends on the organizational-legal form of the debtor legal entity. If the debtor is a joint-stock company, a decision of the general meeting of shareholders is required; if it is a limited liability company, a decision of the general meeting of the company's

participants. The decision of the owner of the property is executed by a corresponding document in the form of a decision or an order.

Provision is also made for attaching the minutes of the meeting of the debtor's employees on the election of a representative of the employees to participate in the insolvency case, if such a meeting was held before the filing of the application to initiate the insolvency proceedings. In the event that a representative of the employees is elected, the temporary manager is obliged to send it a copy of the notice of the holding of the first meeting of creditors (part one of Article 88 of the Law). In insolvency procedures, claims for the payment of wages and severance pay to employees are asserted not by individual employees but by their representative in the form of an aggregate amount of the claims of all employees. The representative of the employees is also entitled to apply to the court with a complaint in the event of a dispute between the judicial manager and the debtor's employees regarding the composition and amount of the wages and severance pay payable under the employment contract (part two of Article 60 of the Law).

Thus, the representative of the debtor's employees plays an important role in insolvency procedures, and the provision of this part has been established with regard to the significance, for the court and the judicial manager, of information on who exactly has been elected as the representative of the employees.

3. All documents to be attached to the debtor's application must be submitted either in the original or in the form of copies certified in the established manner (if a seal is available). Accordingly, the documents must be certified by the seal of the legal entity or individual entrepreneur or notarized.

Article 41. The Creditor's Application

The creditor's application to initiate an insolvency case against the debtor shall be filed with the court in written or electronic form. The application of a legal entity creditor shall be signed by its manager or representative, and the application of a individual creditor or individual entrepreneur—by that natural person or its representative.

The creditor's application to initiate an insolvency case against the debtor must specify:

the name of the court to which the application is filed;

the name (surname, first name, patronymic) of the applicant and its location (postal address), email address (if any);

the name (surname, first name, patronymic) of the debtor and its location (postal address), email address (if any);

the amount of the debtor's monetary obligation to the creditor from which the claim arose, as well as the time limit for its performance;

evidence of the validity of the creditor's claims, including a court decision that has entered into legal force, evidence confirming the debtor's acknowledgment of the said claims and a notary's writ of execution;

the list of attached documents.

The creditor is obliged to send a copy of its application to the debtor.

This article defines the requirements for the creditor's application to initiate an insolvency case against the debtor, the list of information that must be specified in such an application, as well as the procedure for sending it to the persons participating in the insolvency case.

1. Part one of this article establishes that a creditor's application to initiate an insolvency case against the debtor may be filed with the court in written or electronic form. It follows from this that the creditor is entitled to choose one of the said forms of applying to the court. If the creditor wishes to file the application in written form, it shall be submitted to the court through the court registry or sent by postal communication. When applying to the court in electronic form, the applicant shall send the application and the documents attached to it in the form of electronic documents through the electronic court-proceedings system, using the interactive services portal of the Supreme Court of the Republic of Uzbekistan.

The application of a legal entity creditor shall be signed by its manager or representative, and the application of a individual creditor or individual entrepreneur shall be signed by the natural person itself or its representative.

Under Article 61 of the EPC, a representative's authority to conduct a case before the court must be provided for in a power of attorney issued and executed in accordance with the legislation. A power of attorney on behalf of a legal entity must be signed by its manager or by another person authorized thereto by the constituent documents, and certified by the seal of the legal entity (if a seal is available).

It should also be noted that, if the application is signed by a representative on the basis of a power of attorney, the power of attorney or a copy thereof certified in the established manner must be attached to the application. Since Article 64 of the EPC imposes on the court the obligation to verify the authority of the persons participating in the case and their representatives, the judge, when considering the application, must verify whether the representative's authority has been duly executed in accordance with the requirements of Chapter 10 of the Civil Code and § 2 of Chapter 6 of the EPC of the Republic of Uzbekistan.

2. The creditor's application to initiate an insolvency case against the debtor must specify: the name of the court to which the application is filed. the name of the applicant (surname, first name, patronymic), and its location (postal address), email address (if any), the name of the debtor (surname, first name, patronymic) and its location (postal address), email address (if any), the amount of the debtor's monetary obligation to the creditor that served as the ground for the claim, as well as the time limit for its performance, evidence confirming the validity of the creditor's claims including a court decision that has entered into legal force, evidence of the debtor's acknowledgment of the said claims, a notary's writ of execution, as well as the list of attached documents.

The amount of the debtor's indebtedness to the creditor must be determined with regard to the fact that, with respect to natural persons and individual entrepreneurs,

the signs of insolvency are established in accordance with Article 195 and part one of Article 228 of the Law. The indication of the time limit for the performance of the obligation is of significant importance for establishing conformity with the signs of temporary insolvency provided for in Article 5 of the Law, namely for determining the fact of a delay in the performance of the obligation for a period of not less than three months. The need to specify this information arises from the fact that, in accordance with part two of Article 6 and Article 46 of the Law, it constitutes the ground for admitting the application for consideration.

The said evidence confirms the validity of the creditor's application and ensures the debtor's protection against unfounded applications for its bankruptcy. In the event of disagreement with the evidence submitted, the debtor is entitled to submit to the court a written response in the manner provided for in Article 48 of the Law. As other information, the creditor's application may specify data on contracts concluded between the creditor and the debtor that gave rise to monetary obligations, as well as other information of significance for the consideration of the case. In addition, the text of the application may contain the creditor's motions for the appointment of an expert examination, for the taking of measures to secure creditors' claims and other procedural requests.

3. The establishment of the creditor's obligation to send the debtor a copy of its application arises from the need to afford the debtor the opportunity to submit to the court a written response to the application (Article 48 of the Law). In addition, in the event that the creditor's application is admitted for proceedings, certain restrictions on the debtor's rights, provided for in parts two and three of Article 47 of the Law, are applied. Accordingly, the debtor must be notified without delay of the filing against it of an application to initiate an insolvency case. It is precisely for this reason that the legislator provided for the mandatory sending to the debtor of a copy of the creditor's application.

See also: International Commentary, p. 739.

Article 42. Consolidation of Creditors' Claims

The creditor's application to initiate an insolvency case against the debtor may be based on consolidated indebtedness under various obligations.

Creditors are entitled to consolidate their claims against the debtor and apply to the economic court with a single application. Such an application shall be signed by the creditors that have consolidated their claims.

This article establishes the possibility of consolidating the claims of several creditors against the debtor in a single application to initiate an insolvency case against the debtor.

1. When filing an application in an insolvency case, a creditor is entitled to include in the amount of its claims an aggregate of various claims against the debtor.

It should be borne in mind that the claims subject to consolidation are those arising from the debtor's entrepreneurial activity, with the exception of obligations connected with claims of a personal nature, such as compensation for harm caused to life or health, the recovery of alimony and the like. In addition, the claims of founders (participants) for the allocation of their share may not be consolidated, since such persons are not creditors within the meaning of the insolvency legislation and do not have the right to file an application to declare the debtor bankrupt.

2. Part two of this article provides for the possibility of an application being filed by several creditors, which means that their procedural joinder is permissible. At the same time, the filing of an application with consolidated creditors' claims is permitted where there are signs of temporary insolvency provided for in Article 5 of the Law (if the corresponding obligations have not been performed by the debtor within three months from the day the time limit for their performance falls due, and, for city-forming enterprises and organizations equated to them, within six months), or signs of permanent insolvency (if, as of the date of applying to the court and as of the beginning of the reporting period of the current year, and, if the application is filed in the first quarter of the year, as of the beginning of the reporting period of the previous year, the debtor's obligations exceed the value of its assets). With respect to natural persons, the amount of the consolidated claims must be not less than two hundred times the base calculation value (Article 195 of the Law). Such an application shall be signed by the managers of the legal entities that have consolidated their claims, or by the individual entrepreneurs. At the same time, the Law does not expressly provide for the possibility of such an application being signed by their representatives. However, representatives may also be vested with the corresponding right on the basis of a power of attorney executed in accordance with the requirements of the Civil Code and the EPC.

This provision reflects the principles of procedural economy and the solidarity of creditors in insolvency law. On the one hand, it makes it possible to reduce the burden on the judicial system by considering consolidated claims within the framework of a single proceeding. On the other hand, it creates an effective mechanism for protecting creditors' rights, especially those whose claims, taken individually, may be insignificant. For small suppliers, contractors and service providers, this mechanism is of important practical significance, since it makes it possible to protect their legitimate property interests more effectively.

Article 43. Documents Attached to the Creditor's Application

Attached to the creditor's application to initiate an insolvency case against the debtor, in addition to the documents provided for by the Economic Procedural Code of the Republic of Uzbekistan, shall be documents confirming the debtor's monetary obligations to the creditor, as well as the existence and amount of the indebtedness; in the case of insolvency under the simplified

procedure and the insolvency of a natural person, evidence of payment of the costs for the payment of the judicial manager's remuneration shall be attached.

Attached to the creditor's application signed by a representative of the creditor shall be a power of attorney confirming the authority to sign the application.

The following shall also be attached, where available, to the creditor's application to initiate an insolvency case against the debtor:

the court decision that considered the creditor's claims against the debtor;

the enforcement document (writ of execution, payment demands accepted by the debtor, a notary's writ of execution and the like) or evidence confirming the debtor's acknowledgment of the creditor's claims.

This article defines the documents attached to the creditor's application to initiate an insolvency case against the debtor.

1. The documents provided for by the EPC are to be understood as the documents specified in Article 151 of the EPC. These include documents confirming payment of the state duty and postal costs in the established manner and amount, as well as documents confirming the sending of a copy of the application to the debtor and other persons participating in the case.

In addition to the above documents, this provision also requires that documents confirming the existence of the debtor's monetary obligations to the creditor, the amount of these obligations and other circumstances on which the creditor's application is based be attached to the creditor's application. Documents confirming the debtor's monetary obligations to the creditor, as well as the existence and amount of the indebtedness, may include invoices, consignment notes and other documents.

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8. Attached to the debtor's or creditor's application to initiate an insolvency case shall be the documents provided for by Articles 40, 43, 198 of the Law and Article 151 of the EPC. In the event that the said documents are not submitted, the application and the documents attached to it shall be returned on the basis of Article 155 of the EPC and part six of Article 46 of the Law, except in cases where applying with an application is mandatory for the manager of the debtor and the documents provided for by Article 40 of this Law are not attached to the application. In this case, the application shall be admitted by the court for proceedings, and the missing documents shall be requested in the course of preparing the insolvency case for trial.

As an example, documents confirming other circumstances on which the creditor's application is based may include evidence to prove the absence of the debtor, the manager of the individual entrepreneur that has ceased its activity, or of

the manager of the legal entity being liquidated, as well as the impossibility of establishing their place of residence. In such cases, evidence confirming the said circumstances may be submitted to the court, for example: a certificate from the address bureau on the removal of the person from the registration records and its departure to another region; a report drawn up with the participation of the citizens' self-government bodies and representatives of the homeowners' association to the effect that the person does not actually reside at the registered address (*paragraph 54 of the above-mentioned Resolution of the Plenum of the Supreme Court*).

2. If the application is signed by a representative of the creditor, a power of attorney confirming the corresponding authority of the person who signed the application shall be attached to it. The authority of the creditor's representative is confirmed by a power of attorney executed in the manner provided for in Article 138 of the Civil Code, indicating the specific actions which the representative is authorized to perform.

Article 61 of the EPC also establishes that a representative's authority to conduct a case before the court must be confirmed by a power of attorney issued and executed in accordance with the law. A power of attorney issued on behalf of a legal entity shall be signed by its manager or by another person authorized by the constituent documents, and shall be affixed with the seal of the legal entity (if any).

It should also be noted that, if the debtor's application is signed by its representative on the basis of a power of attorney (or a duly certified copy thereof), the power of attorney must be attached to the application. Since Article 64 of the EPC establishes the court's obligation to verify the authority of the persons participating in the case and their representatives, the judge, when considering the application, must verify whether the representative's authority has been executed in accordance with the requirements of Chapter 10 of the Civil Code and Article 63 of the EPC.

3. Part three of this article establishes that the following documents (where available) shall be attached to the creditor's application to initiate an insolvency case: the decision of the court that considered the creditor's claims against the debtor. Such judicial acts are to be understood as decisions adopted by the courts in criminal, economic, and civil cases, as well as decisions rendered by domestic and international arbitration courts. It is also necessary to take into account the existence of a judicial act or a decision of a court of the Republic of Uzbekistan on the recognition and enforcement of a decision of a foreign court or arbitration.

Enforcement documents confirming the debtor's acknowledgment of the creditor's claims (a writ of execution, payment demands accepted by the debtor, and the like), or other evidence, including reconciliation statements of mutual settlements, may serve as supporting documents. These also include accounting reports containing information on the amounts of arrears of taxes and other mandatory payments payable by the debtor.

Article 7 of the Law of the Republic of Uzbekistan of 29 August 2001 "On the Enforcement of Judicial Acts and Acts of Other Bodies" contains a list of enforcement documents, which include: writs of execution issued by the courts on the basis of the judicial acts they have adopted; writs of execution issued by the courts for the compulsory enforcement of decisions of a domestic arbitration court; writs of execution issued by the courts for the compulsory enforcement of mediation agreements; writs of execution issued by the courts of the Republic of Uzbekistan on the basis of decisions of foreign courts and arbitrations; court orders; notarized agreements on the payment of alimony; notaries' writs of execution; certificates issued by labor dispute commissions on the basis of their decisions; rulings of the bodies (officials) authorized to consider cases of administrative offenses; rulings of prosecutors on the compulsory administrative eviction of persons who have unlawfully occupied residential premises or reside in buildings recognized as dilapidated; rulings of state enforcement officers; as well as other documents provided for by the legislation.

The submission of the said documents confirming the validity of the creditor's application to declare the debtor bankrupt also serves as a guarantee of the debtor's protection against unfounded claims. In addition, the provision of such documents when applying to the court contributes to a more expeditious consideration of the insolvency case.

Article 44. The Application of the Authorized State Body

The application of the authorized state body to the court to initiate an insolvency case of an enterprise in whose charter fund (charter capital) there is a state share and (or) which has indebtedness to the Republic of Uzbekistan under monetary obligations shall be filed in written or electronic form, with the necessary documents confirming the debtor's insolvency attached to it.

The application of the authorized state body shall be filed with the court in compliance with the requirements provided for in Articles 41 and 43 of this Law.

This article establishes the requirements for the application of the authorized state body.

1. The Law classifies the authorized state body among the persons entitled to apply to the court with an application to declare an enterprise bankrupt, including with respect to enterprises with a state share in the charter fund (charter capital) or enterprises that have indebtedness to the Republic of Uzbekistan (Article 7 of the Law).

This article provides that the application of the authorized state body may be filed with the court in written or electronic form. This means that the authorized state body is entitled to choose one of the said means of applying to the court. In the event that the application is filed in written form, it shall be sent to the court through the registry

or the postal service. When filing the application in electronic form, the authorized state body may use the electronic judicial services on the interactive portal of the Supreme Court of the Republic of Uzbekistan, with the application and the attached documents being sent in the form of electronic documents.

Documents confirming insolvency are the documents provided for in part one of Article 43 of the Law, namely "documents confirming the existence and amount of the debtor's monetary obligations to creditors." Such documents include reconciliation statements of mutual settlements, collection orders of the tax authorities, invoices, consignment notes and other similar documents.

2. This part of the article establishes that the application of the authorized state body shall be filed with the court in compliance with the requirements of Articles 41 and 43 of the Law. At the same time, Article 151 of the EPC provides that a document confirming payment of the state duty in the established manner and amount shall be attached to the application. However, it should be noted that, in accordance with paragraph 10 of Article 9 of the Law of the Republic of Uzbekistan "On State Duty," the Agency for the Management of State Assets of the Republic of Uzbekistan and its territorial bodies, as well as the Center for the Effective Use of State Property Objects under the Agency and its territorial bodies, are exempt from payment of the state duty in respect of claims and applications filed with the economic courts within the scope of their powers. It follows from this that no document confirming payment of the state duty is required to be attached to the application of the authorized state body to declare the debtor insolvent. At the same time, exemption from postal costs is not provided for by the legislation. Accordingly, where documents confirming payment of postal costs are not submitted, the application and the documents attached to it shall be returned on the basis of paragraph 6 of part one of Article 155 of the EPC, as clarified in the Resolution of the Plenum.

When applying to the court concerning the insolvency of an enterprise in whose charter fund (charter capital) there is a share of the Republic of Uzbekistan, the application must specify information on the state's share in the charter capital. In addition, a document confirming the existence of the state share in the charter capital of this enterprise must be attached to the application.

Article 45. The Application of the State Tax Service Authority and Another Authorized Body

The application of the state tax service authority and another authorized body to initiate an insolvency case against the debtor in respect of taxes and duties must meet the requirements provided for in Articles 41 and 43 of this Law.

Attached to the application of the state tax service authority and another authorized body to initiate an insolvency case against the debtor must be evidence of the taking of measures to recover the arrears of taxes and duties in accordance with the legislation.

This article establishes the requirements applicable to the application of the state tax service authorities and other authorized bodies.

1. The Law classifies the state tax service authorities and other authorized bodies among the persons entitled to apply to the court with an application to initiate the debtor's insolvency case in the event of its failure to perform its obligations to pay taxes and duties (part three of Article 6 of the Law). It should be emphasized that the state tax service authorities and other authorized bodies are entitled to apply to the court with an application to initiate the debtor's insolvency case exclusively in connection with the failure to perform the obligations to pay taxes and duties. This means that they are not entitled to file an application to declare the debtor bankrupt on the ground of the failure to perform monetary obligations to creditors. This article contains a referential provision and refers to Articles 41 and 43 of the Law. Article 41 of the Law establishes the general rules for filing an application, according to which the application is filed in written form and must contain six mandatory elements: the name of the court; information on the applicant (full name and location/postal address, and the email address, if any); information on the debtor (full name and location/postal address, and the email address, if any); the amount of the debtor's monetary obligation that served as the ground for the application, as well as the time limit for its performance; evidence of the validity of the claims, including judicial acts that have entered into legal force, evidence of the debtor's acknowledgment of the claims and a notarial enforcement document; the list of attached documents.

Based on the general provisions of Article 151 of the EPC and Article 43 of the Law, documents confirming the following must be attached to the application: the sending to the debtor of a copy of the application and the attached documents; the existence of the debtor's indebtedness in respect of mandatory payments to the tax and other authorized bodies, its amount and other circumstances; the power of attorney of the representative, if the application is signed by a representative of the body.

The following shall also be attached to the application, where available: (a) the judicial act by which the creditor's claims against the debtor were considered; (b) enforcement documents or evidence of the debtor's acknowledgment of the claims (a writ of execution, accepted payment demands and the like), as well as other evidence—reconciliation statements of mutual settlements and accounting records reflecting the amounts of tax and other mandatory indebtedness.

Article 151 of the EPC provides that a document confirming payment of the state duty in the established manner and amount shall be attached to the application. However, it should be noted that, in accordance with paragraph 12 of Article 9 of the Law of the Republic of Uzbekistan "On State Duty," the state tax service authorities and the financial and customs authorities are exempt from payment of the state duty in the economic courts in respect of all cases and applications, as well as cases

considered in a separate procedure. It follows from this that no document confirming payment of the state duty is required to be attached to the application of the authorized state tax service body and other authorized bodies to declare the debtor insolvent.

However, exemption from postal costs is not provided for by the legislation.

Accordingly, if documents confirming payment of postal costs are not submitted, the application and the documents attached to it shall be returned on the basis of paragraph 6 of part one of Article 155 of the EPC, as clarified in the Resolution of the Plenum.

2. Unlike other entities, when an application is filed by the tax authorities and other authorized bodies, the distinction provided for in this article of the Law is explained by the need to attach to the application evidence that measures were taken to recover the overdue indebtedness in respect of mandatory payments in accordance with the Tax Code.

As such documents, the application shall be accompanied by the payment demand (collection order) sent to the bank for the indisputable write-off of the indebtedness from the legal entity, which was not executed, bearing the bank's notation of the absence of funds in the account. Where the debtor has property, a court decision on the recovery of the indebtedness at the expense of the debtor's property shall be attached to the application. If execution was levied upon the debtor's property but it was not possible to recover the indebtedness, a writ of execution bearing the court enforcement officer's notation of the impossibility of enforcement owing to the absence of property shall be attached to the application.

The ground for the tax and customs authorities to file an application to initiate the debtor's insolvency case is the taking of measures to recover the arrears of taxes and duties, and therefore evidence of such measures, in accordance with the legislation, must be attached to the application.

Under the second paragraph of paragraph 1 of the Decree of the President of the Republic of Uzbekistan of 1 February 2019 No. PP-4146 "On Measures for the Further Simplification of the Bankruptcy Procedure and the Fundamental Improvement of the Activity of Judicial Managers," the tax authorities are obliged to apply to the court with an application to initiate an insolvency case not later than 30 days from the day the enforcement documents are returned owing to the impossibility of recovering the arrears of taxes and duties.

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10. Accordingly, if the decision of the state enforcement officer on the return of the enforcement documents owing to the impossibility of recovering the arrears of taxes and duties is not attached to the application of the state tax service authority to initiate an insolvency case against the debtor, the application shall be returned on the basis of part six of Article 46 of the Law and paragraph 7 of part one of Article 155 of the EPC, and, if the application has been admitted for proceedings, it shall be left without consideration on the basis of paragraph 5 of Article 107 of the EPC.

This rule shall also apply to the application of the state customs service authority.

Article 46. Initiation of an Insolvency Case

The judge shall decide the question of admitting the application to initiate an insolvency case against the debtor, or of refusing admission or returning the application to initiate an insolvency case, not later than five days from the moment the application is received.

The judge shall admit for proceedings an application to initiate the debtor's insolvency case filed in compliance with the requirements of the Economic Procedural Code of the Republic of Uzbekistan and this Law.

When admitting for proceedings an application to initiate the debtor's insolvency case, the judge may issue a ruling on the introduction of the observation procedure and the appointment of a temporary manager.

The court's ruling initiating the insolvency case shall be sent by the court to the state tax service authorities and other authorized bodies, and to the state enforcement officer at the debtor's location (place of residence). The legal entity debtor shall be charged with the obligation to send copies of the ruling initiating its insolvency case to the said persons (bodies) at the location of the debtor's representative offices and branches.

The judge shall refuse admission for proceedings of the application to initiate an insolvency case against the debtor if the condition provided for in part one of Article 37 of this Law is violated.

The judge shall return the application to initiate an insolvency case against the debtor if the application does not meet the requirements provided for in Articles 39 to 45 of this Law. In cases where applying with an application is mandatory for the manager of the debtor and the documents provided for by Article 40 of this Law are not attached to the application, such an application shall be admitted by the court, and the missing documents shall be requested in the course of preparing the insolvency case for trial.

This article establishes the procedure for initiating an insolvency case against the debtor, as well as the procedure for refusing admission of the application or returning it.

1. As provided for in part one of this article, the judge, not later than five days from the moment the application is received, must individually decide the question of admitting the application to initiate the debtor's insolvency case, or of refusing its admission, or of returning the application. In other words, within this period the judge is obliged to give a legal "assessment" of the application filed and the documents (evidence) attached to it. This rule is also enshrined in Article 152 of the EPC.

2. The judge verifies whether the documents provided for by Articles 40, 43 and 198 of the Law, as well as by Article 151 of the EPC, are attached to the debtor's or creditor's application to initiate an insolvency case, and also whether the application of the authorized state body, the tax authority and another authorized body has been filed in accordance with the requirements of the EPC and the Law. If the application has been filed in compliance with the requirements of Article 5 and Articles 37-45 of the EPC and the Law, the judge admits the application for proceedings and issues a ruling thereon. This ruling, under part one of Article 153 of the EPC, shall be sent to the persons participating in the insolvency case within five days from the day of its issuance. An insolvency case is mandatorily initiated simultaneously with the admission of the application to declare the debtor bankrupt. The judge simultaneously issues a ruling on the admission of the application for proceedings and on the initiation of the insolvency case.

Article 153 of the EPC enshrines a special provision on the procedure for admitting the application, and neither the Law nor the EPC provides for a procedure for appealing against the ruling admitting the application. Consequently, such a ruling is not subject to appeal (see the commentary to Article 60). However, a debtor that does not agree with this ruling is entitled to submit written objections in accordance with Article 48 of the Law.

In the ruling on the admission of the application for proceedings, the court also indicates the fact of the initiation of the debtor's insolvency case, as well as the time and place of the holding of the first court hearing.

3. In accordance with part three of this Article, the judge, when admitting an application to initiate an insolvency case, has the right, simultaneously with the ruling on the admission of the application for proceedings, to issue a ruling on the introduction of the observation procedure and the appointment of a temporary manager. The ruling on the admission of the application to declare the debtor insolvent may indicate the introduction of the observation procedure and the appointment of a temporary manager. At the same time, based on the meaning and content of Article 78 of the Law, the issuance of a separate ruling on the introduction of the observation procedure is not required. However, if, for any reasons or by virtue of circumstances, it is impossible at the moment of issuing the ruling on the admission of the application for proceedings to appoint a temporary manager at the

same time (for example, there is no candidate for temporary manager at the moment of considering the question of admitting the application), the court is entitled, not later than ten days from the day the application to initiate an insolvency case is received, to issue a separate ruling on the introduction of observation and the appointment of a temporary manager. In such a case, it should be borne in mind that the observation period is calculated not from the moment of issuing the ruling on the admission of the application for proceedings, but from the moment of issuing the ruling on the introduction of observation and the appointment of a temporary manager.

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14. During the preparation of the insolvency case for consideration at a court hearing, the judge must simultaneously decide the question of the introduction of the observation procedure (Articles 49 and 78 of the Law). The introduction of the observation procedure is indicated in the court's ruling on the admission of the application for proceedings and the initiation of the insolvency case.

When an application to initiate an insolvency case of a legal entity debtor that has property is filed with the court, the candidate for temporary manager is indicated therein. If, however, no candidate for temporary manager is indicated in the application, the court requests the applicant or the authorized state body or the public association of judicial managers to submit a corresponding candidate.

4. Part four of this article establishes the mandatory list of persons to whom the court sends the ruling on the admission of the application for proceedings and the initiation of the debtor's insolvency case. These include the tax authorities, the court enforcement officer and other authorized bodies at the debtor's location (or place of residence). In turn, the obligation to send a copy of the ruling initiating the insolvency case to its representative offices and branches at their location is charged to the legal entity debtor itself.

The sending of the ruling to the court enforcement officer is justified by the fact that, in accordance with paragraph 2 of part two of Article 34 of the Law of the Republic of Uzbekistan "On the Enforcement of Judicial Acts and Acts of Other Bodies," in the event of the initiation by the economic court of the debtor's insolvency case, including upon the issuance of a ruling on the introduction of observation, judicial rehabilitation or external management and (or) on their extension, the enforcement of enforcement documents in the part concerning property recoveries is suspended in accordance with part one of Article 79 of the said Law. Thus, the court prevents the sale of the debtor's property, which is an important circumstance in the insolvency procedure. The sale of the debtor's property is carried out within the framework of bankruptcy procedures.

It should be noted that, if the debtor has a state share in the charter fund (charter capital), the court is obliged to notify the authorized state body of the initiation of the insolvency case in accordance with part one of Article 153 of the EPC within five days after the issuance of the ruling.

5. If the application to initiate an insolvency case against the debtor does not meet the requirements of Article 5 of the Law, then, in accordance with part five of this article, the judge refuses its admission. However, this is not the sole ground for refusing admission of the application. The provision of part five of this article provides for special rules as compared with the provisions of Article 154 of the EPC, that is, with regard to the particularities of insolvency cases, it establishes an additional ground for refusing admission of the application to initiate the debtor's insolvency case. In addition, the judge refuses admission of the application not only on the grounds of this provision, but also in accordance with the grounds provided for in Article 154 of the EPC. The court issues a ruling on the refusal to admit the application, which, in accordance with part two of Article 154 of the EPC, may be appealed by the persons participating in the case.

6. The general grounds for returning the application to initiate the debtor's insolvency case are governed by Article 155 of the EPC. In particular, under Article 155 of the EPC, the statement of claim shall be returned if it is not signed or is signed by a person not entitled to sign it, or if it does not specify the position or the surname, first name and patronymic of the person who signed it.

This article additionally provides that a ground for returning the application is also the non-conformity of its content and form with the requirements of Articles 39-45 of the Law. In such cases, the court returns the application.

The sole exception is established with respect to the requirements of Article 40 of the Law concerning the documents attached to the application. In particular, if the application is filed by the manager of the debtor, who is obliged to apply to the court, then the absence of the documents specified in Article 40 of the Law does not constitute a ground for returning the application. The missing documents must be requested by the court in the course of preparing the case for trial. It should be noted that this rule applies only in cases where the manager of the debtor is obliged to file an application to initiate an insolvency case (part one of Article 9 of the Law).

The judge issues a ruling on the return of the application and sends it to the persons participating in the case within five days from the day the application is received. The documents attached to the application are returned to the applicant. This ruling may be appealed against or protested in the manner established by part three of Article 155 of the EPC. In the event that the ruling on the return of the application is reversed, it is deemed to have been filed with the court on the day of its initial receipt. The principal procedural difference between the refusal to admit an application and its return is that the return of the application does not preclude reapplying to the court after the identified deficiencies have been remedied.

Article 47. Measures to Secure Creditors' Claims

The court, on the basis of an application by a person participating in an insolvency case, is entitled to take measures to secure creditors' claims in accordance with the Economic Procedural Code of the Republic of Uzbekistan.

In addition to the measures to secure creditors' claims provided for by the Economic Procedural Code of the Republic of Uzbekistan, the court is entitled to prohibit the conclusion of transactions without the consent of the judicial manager, to oblige the debtor to transfer securities, currency valuables and other property into the custody of third parties, and to take other measures aimed at securing the preservation of the debtor's property.

The measures to secure creditors' claims shall remain in effect, respectively, until the moment the court adopts a decision on the introduction of one of the insolvency procedures, or until the moment the court adopts a decision refusing to declare the debtor bankrupt, or until the moment the court approves a settlement agreement.

The court is entitled to lift the measures to secure creditors' claims before the occurrence of the circumstances provided for in part three of this article.

The court's ruling on the taking of measures to secure creditors' claims may be appealed against (protested) by the persons participating in the insolvency case.

This article establishes that, within the framework of an insolvency case, the court, for the purpose of protecting the interests of creditors, is entitled to apply measures aimed at securing the preservation of the debtor's property, and also defines the duration of such measures, the procedure for lifting them and the possibility of appealing against the corresponding ruling of the court.

1. Measures to secure creditors' claims are an important initial stage in protecting the interests of creditors. Such measures secure the preservation of the integrity of all of the debtor's property or part of it.

The Law provides for the possibility of the courts taking measures to secure creditors' claims in insolvency procedures. Within the framework of the insolvency procedure, the provisions of Article 7 of the EPC apply to the measures to secure creditors' claims, and this article establishes certain particularities of such measures in an insolvency case.

This provision establishes that, in accordance with part one of Article 93 of the EPC, measures to secure creditors' claims may be taken by the court upon an application by a person participating in the case.

2. The list of measures to secure claims is established by part one of Article 94 of the EPC and includes: the imposition of an attachment on property or monetary funds belonging to the respondent; a prohibition on the respondent's performing certain actions; a prohibition on other persons' performing certain actions connected with the subject matter of the dispute; the suspension of recovery under an enforcement document or another document under which recovery is carried out in

an indisputable (without acceptance) manner that is contested by the claimant; the suspension of the sale of property in the consideration of an application for the release of property from attachment; the imposition on the respondent of the obligation to perform certain actions for the purpose of preventing the destruction or deterioration of the disputed property; the transfer of the disputed property to a third party (custodian). In addition, the court is entitled, on its own initiative, to establish restrictions connected with the debtor's civil capacity, to prohibit the debtor from concluding transactions without the permission of the temporary manager, to oblige the debtor to transfer securities, currency valuables and other property into the custody of third parties, as well as to apply other measures aimed at the preservation of the debtor's property. It should also be noted that the temporary manager, in accordance with the fourth paragraph of part one of Article 83 of the Law, is entitled to apply to the court with a motion for the application of the additional measures provided for in this provision.

3. The measures to secure creditors' claims taken by the court remain in effect until the moment of the introduction of the next insolvency procedure (judicial rehabilitation, external management or liquidation proceedings), or until the court renders a decision refusing to declare the debtor bankrupt, or until the court approves a settlement agreement, or until the termination of the proceedings in the case. In the said cases, the issuance of a separate ruling lifting the measures to secure creditors' claims is not required.

4. At the same time, the court, upon a motion by a person participating in the case, is entitled to lift the measures to secure creditors' claims even before the occurrence of the circumstances provided for by law. Such a motion may be granted where there are no grounds to believe that the debtor's property may be used to the detriment of creditors, and, conversely, where there are conditions in which the disposal of the property is aimed at restoring the debtor's solvency.

A motion to lift the measures to secure creditors' claims is considered at a court hearing with notice to the persons participating in the case. However, their failure to appear, where duly notified, does not preclude the consideration of the question of lifting the said measures.

5. Based on the results of the consideration of the measures to secure creditors' claims and the measures aimed at the preservation of the debtor's property, the judge issues a ruling. It is subject to enforcement from the moment of its issuance (announcement), and the persons participating in the insolvency case are entitled to appeal against it or to protest against it in the manner established by the EPC.

See also: International Commentary, p. 739.

Article 48. The Debtor's Written Opinion on the Application to Initiate an Insolvency Case Against the Debtor

The debtor, within a five-day period from the day of receipt of the court's ruling on the admission of the application of a creditor, the state tax service authority or another authorized body to initiate an insolvency case, unless other rules are established by this Law, is entitled to send to the court, the applicant and other persons participating in the insolvency case a written opinion on such an application, as well as to notify all creditors not specified in the application of the initiation of an insolvency case against it.

Attached to the written opinion sent by the debtor to the court must be evidence of the sending of a copy of it to the applicant and other persons participating in the insolvency case.

The written opinion regarding the application to initiate an insolvency case against the debtor must specify the information provided for by the Economic Procedural Code of the Republic of Uzbekistan. The absence of the debtor's written opinion does not preclude the consideration of the insolvency case.

This article establishes the debtor's right to send to the court, the applicant and other persons participating in the insolvency case written objections (a response) to the application to initiate the case, as well as the right to notify all creditors that an insolvency case has been initiated against it.

1. The debtor's written response to the application to initiate an insolvency case against it is a procedural means of defense against the claims asserted against it in the insolvency case. This written response performs the same functions as the written response provided for in Article 156 of the EPC in claim proceedings.

In the event that the court admits the application of a creditor, the state tax service authority or another authorized body to initiate an insolvency case against the debtor, the debtor is entitled to send to the court, the applicant and other persons participating in the case a written response, if it does not agree with the composition and amount of the claims specified in the application. The submission of a written response is not an obligation of the debtor, but its right. It should be noted that the debtor's objections to the claims specified in the application to initiate an insolvency case are sent in the manner established by this Article, and not on the basis of a separate provision of the Law.

From the moment of receipt of the court's ruling on the admission of the application for proceedings, the debtor is entitled, within five days, to send a written response to the court. Upon the expiry of this period, the submission of a written response does not preclude the consideration of the debtor's arguments by the court. The debtor may submit a written response right up to the day of the consideration of the insolvency case. Based on the results of the consideration of the written response, the court does not issue a separate judicial act, but assesses the debtor's arguments set out in the response in the course of considering the case on the merits.

In addition, the debtor has the right to notify of the initiation of an insolvency case against it those creditors that were not specified in the application. The notification of creditors not specified in the application to initiate an insolvency case against the debtor is not an obligation of the debtor, but its right, just as the submission of written responses is.

2. Under this provision, when the debtor submits a written response to the application to initiate an insolvency case, it is obliged to attach documents confirming the sending of copies of this response to the applicant and other persons participating in the case. For example, such evidence may be a postal receipt, confirmation of electronic dispatch or an acknowledgment of delivery. This procedure is aimed at ensuring the awareness of the participants in the process, affording them the opportunity to express their position, as well as at observing the principles of openness and the adversarial nature of the judicial proceedings.

3. On the basis of Article 156 of the EPC, the written response to the application to initiate an insolvency case against the debtor specifies: the name of the court to which the response is sent; the name of the debtor and the case number; the grounds for refusing to satisfy the claimant's claims in full or in part, indicating the reasons based on the legislation, as well as evidence confirming the objections; the list of documents attached to the response; motions and other information available to the respondent. In addition to the mandatory information, the response may specify: the total amount of indebtedness to all creditors, as well as the indebtedness for wages and mandatory payments; information on the existence of the debtor's accounts in banks and credit organizations; where available, documents confirming the lack of validity of the applicant's claims. The debtor may also submit other necessary information, in particular information on the existence of property at the expense of which the accounts receivable may be repaid, information on the debtor's economic activity, motions for the grant of a deferral or installment plan for the performance of monetary obligations and the payment of mandatory payments, a list of measures aimed at restoring the debtor's solvency, and so forth.

The written response also specifies the postal address, telephone and fax numbers, and email address (if any) of the person participating in the case or its representative. Motions for the refusal to apply a specific bankruptcy procedure, as well as for the non-application of security measures, may be attached to the debtor's response. The absence of a written response does not preclude the consideration of the insolvency case.

Article 49. Preparation of the Insolvency Case for Trial

The preparation of the insolvency case for trial shall be carried out by the judge in the manner provided for by the Economic Procedural Code of the Republic of Uzbekistan, with the particularities established by this Law.

Not later than five days from the day the application to initiate an insolvency case against the debtor is received, the judge shall decide the question of the introduction of the observation procedure.

Where the debtor or the temporary manager, or the state tax service or another authorized body, has objections to creditors' claims, the judge shall verify the validity of their objections.

The judge's verification of the validity of the objections of the debtor or the temporary manager, or the state tax service or another authorized body, shall be carried out within a period of not later than one month before the expiry of the established time limit for the consideration of the insolvency case.

Based on the results of the consideration of the validity of the objections of the debtor or the temporary manager, or the state tax service or another authorized body, the court shall issue a ruling on the inclusion of creditors' claims in the register of creditors' claims or on the refusal to include them. The ruling shall specify the amount and order of priority of satisfaction of the creditors' claims with respect to which the objections have been found to be unfounded.

The court's ruling based on the results of the consideration of the objections to creditors' claims may be appealed against (protested). The appeal against (protest of) the said ruling does not suspend its effect.

In order to determine the debtor's financial condition during the preparation of the insolvency case for trial, as well as during the consideration of the insolvency case, the court is entitled to appoint an expert examination.

This article establishes the procedure for preparing the insolvency case for trial, introducing the observation procedure, considering objections to creditors' claims, deciding the questions of their inclusion in the register, as well as the procedure for appointing an expert examination to determine the debtor's financial condition.

1. The preparation of the case for trial is carried out by a judge of the inter-district economic court or a judge of the judicial panels for economic cases in the manner provided for by Chapter 19 of the EPC, with regard to the particularities established by the Law. In accordance with Article 155 of the EPC, if there are no grounds for returning the application or for rejecting it under Article 154, the judge issues a ruling on the admission of the application to declare the debtor insolvent for proceedings and on the preparation of the case for trial.

In practice, the judge, as a rule, issues a single ruling in which, with regard to the particularities provided for by law, the preparatory actions for the case, the time limits for their performance, as well as the setting of the case for trial and the time and place of its holding, are specified.

In particular, when preparing the insolvency case for trial, the judge performs the following actions: 1) considers the question of joining third parties to the case; 2) notifies the interested persons of the time and place of the court hearing; 3) explains to the participants in the case their right to participate in the hearing by videoconference; 4) proposes that the participants in the case and other organizations and their officials perform certain actions, including the submission of documents and information of significance for the resolution of the dispute; 5) summons the persons assisting in the administration of justice (a witness, an interpreter, a specialist and an expert(s)); 6) considers the question of appointing an expert examination; 7) assists the parties in obtaining the necessary evidence and, upon their motion, requests it; 8) resolves the questions of securing the claim and the evidence upon a motion by the parties; 9) considers the questions of the joining of other persons to the case and the holding of an off-site court hearing. The judge is also entitled to perform other actions aimed at ensuring the correct and timely resolution of the case.

2. Part two of this aa establishes that the judge, not later than five days from the day the application to initiate an insolvency case against the debtor is received, is obliged to decide the question of the introduction of the observation procedure. A detailed explanation of this provision is set out in the commentary to Article 78 of the Law.

Under Article 78 of the Law, upon the initiation of an insolvency case, the observation procedure is introduced from the date of the admission by the court for proceedings of the application to initiate an insolvency case against the legal entity debtor. From the standpoint of the EPC, the observation procedure is a stage of the economic process aimed at preparing the case for consideration on the merits by the court.

This may also be understood as follows.

When an application to initiate an insolvency case is filed with the court, the candidate for temporary manager must be indicated in the application. In such a case, the judge, when admitting the application for proceedings, issues a ruling on the introduction of the observation procedure and the appointment of a temporary manager (part three of Article 46 of the Law), with the observation procedure being introduced from the moment of the admission by the court of the application to initiate the insolvency case for proceedings (Article 78 of the Law).

When applying to the court with an application to initiate an insolvency case against a debtor legal entity that has property, the candidate for temporary manager is indicated in the application. If the candidate for temporary manager is not indicated, the court requests a corresponding candidate from the applicant, or from the authorized state body, or from the public association of bankruptcy managers.

3. Part three of this article establishes that, where there are objections to creditors' claims on the part of the debtor, the temporary manager or the state tax authority or another authorized body, the judge verifies the validity of these objections. Article 87 of the Law enshrines that the debtor is entitled to send to the court its objections

to creditors' claims that are to be recognized as established (this is explained in detail in the commentary to Article 87 of the Law). Article 83 of the Law also defines the rights of the temporary manager, which, in the cases provided for in Article 79 of the Law, is entitled to raise objections to creditors' claims during the observation procedure (this is set out in detail in the commentary to Article 83 of the Law). At the same time, the judge also verifies the validity of the objections raised by the state tax authority or another authorized body.

4. Under this provision, the judge is obliged to verify the objections raised by the debtor, the temporary manager, the state tax authority or another authorized body to creditors' claims not later than one month before the expiry of the time limit for the consideration of the case. For example, if the objections concern the lack of validity of a creditor's claim or its amount, the court must consider this question not near the end of the main proceedings, but in advance. This procedure enables the court to resolve all disputed questions in good time, to properly form the register of creditors' claims and to effectively conclude the case within the established time limits.

5. Part five of this article establishes that, based on the results of the consideration of the validity of the objections of the debtor, the temporary manager, the state tax authority or another authorized body, the court issues a ruling on the inclusion of creditors' claims in the register of creditors' claims or on the refusal to include them in the register. The ruling also specifies the amount of the creditors' claims and the order of priority of their satisfaction, if the objections with respect to them have been found to be unfounded.

This ruling is issued not only on the debtor's objections, but also on the objections of the temporary manager, the state tax authority or another authorized body. Thus, at the stage of preparing the insolvency case for trial, separate procedural actions to determine the volume of the asserted claims may be carried out.

6. Part six of this Article establishes that the court's ruling issued based on the results of the consideration of the objections to creditors' claims may be appealed against (a protest may be filed against it).

Consequently, since the said ruling affects the rights and legally protected interests of the persons participating in the case, the possibility of appealing against it (lodging a protest) is provided for.

Article 199 of the EPC establishes that the court's ruling may be appealed against (protested) separately from the court's decision in the cases provided for by the EPC, as well as if such a ruling precludes the further progress of the case. Unless a different time limit is established by this Code, an appeal (protest) may be filed not later than one month from the day the ruling is issued.

However, the filing of an appeal (protest) against this ruling does not suspend its enforcement.

7. In addition, when preparing the insolvency case for trial, as well as when considering the insolvency case, the court, for the purpose of establishing the debtor's financial position, is entitled to appoint an expert examination irrespective

of the existence or absence of motions by the persons participating in the case. This does not contradict the provision of Article 9 of the EPC on the "adversarial nature and equality of the parties," since the said provision is enshrined in Article 49 of the Law.

Article 50. Time Limit for the Consideration of an Insolvency Case

An insolvency case must be considered at a court hearing within a period not exceeding two months from the day the ruling on the admission for proceedings of the application to initiate the debtor's insolvency case is issued. In exceptional cases, the consideration of an insolvency case may be extended for a period of not more than one month.

This article establishes the time limits for the consideration of an insolvency case.

Under the law, an insolvency case is subject to consideration at a court hearing within a period of not more than two months from the day the ruling on the admission of the application to initiate the insolvency case is issued, and the establishment of such a time limit arises from the fact that the court requires time for the following actions: the appointment of a temporary manager, whose candidate is submitted by the creditor or the authorized state body; ensuring the holding of the first meeting of creditors to adopt a decision on the application of a specific insolvency procedure to the debtor; the analysis of the debtor's financial condition; the determination of the amount of creditors' claims; the compilation of the register of creditors' claims.

The first court hearing for the consideration of the insolvency case is set in the ruling on the admission of the application to initiate the debtor's insolvency case for proceedings. The temporary manager is obliged to identify the debtor's creditors, to maintain the register of creditors' claims, to notify creditors of the introduction of the observation procedure in respect of the debtor, as well as, upon a creditor's request, to provide information on the debtor's financial position and (or) its activity within ten days. In exceptional cases, the two-month time limit for the consideration of the case may be extended by not more than one month. The Law does not establish a legal criterion for determining whether a specific circumstance is exceptional for the purposes of extending the time limit. Nor is it defined who carries out the extension of the time limit. In this case, Article 164 of the EPC applies, according to which the extension of the time limits for the consideration of a case is carried out with the permission of the chairman of the court. The question of whether a circumstance is exceptional is considered by the chairman of the court with regard to all circumstances of significance for the case.

Based on the results of the consideration of the case, the court issues one of the judicial acts in the insolvency case provided for in Article 51 of the Law.

See also: International Commentary, p. 739.

Article 51. Judicial Acts in Insolvency Cases

Based on the results of the consideration of an insolvency case, the court shall adopt one of the following judicial acts:

a decision declaring the debtor bankrupt and commencing liquidation proceedings;

a decision refusing to declare the debtor bankrupt;

a ruling on the introduction of the judicial rehabilitation procedure and the extension of its term;

a ruling on the introduction of the external management procedure and the extension of its term;

a ruling on the termination of the proceedings in the insolvency case;

a ruling on leaving the application to initiate the insolvency case without consideration;

a ruling on the approval of a settlement agreement.

Judicial acts in an insolvency case shall be subject to immediate enforcement, unless otherwise established by this Law. A copy of the judicial act in the insolvency case shall be sent by the court without delay to the state enforcement officer at the debtor's location (place of residence).

This article defines the types of judicial acts adopted by the court based on the results of the consideration of an insolvency case, their immediate enforcement, as well as the procedure for sending copies of the judicial acts to the state enforcement officer.

1. Insolvency cases are considered by the economic court under the rules provided for in the EPC, with regard to the particularities established by the Law. In the courts of first instance, cases are considered by a judge sitting alone (part one of Article 16 of the EPC).

The consideration of insolvency cases is carried out in the manner established by Chapter 17 of the EPC, insofar as this does not contradict the Law. As examples of provisions of the EPC that do not apply, one may indicate that, instead of Article 164 of the EPC, which governs the time limits for the consideration of cases, Article 50 of the Law on Insolvency applies, and also that the "Conciliation Procedures" provided for in Chapter 16 of the EPC do not apply in such cases.

The court considers insolvency cases on the basis of the minutes of the meeting of creditors and the documents attached to them, the report of the temporary (court) manager, as well as the evidence and complaints submitted by the participants in the case.

In the course of the consideration of an insolvency case, the court adopts one of the following judicial acts:

a decision declaring the debtor insolvent and commencing liquidation proceedings (the second paragraph of part one of this Article)— if the debtor has signs of insolvency and there are no grounds for the introduction of judicial rehabilitation or external management, the approval of a settlement agreement or the

termination of the proceedings in the insolvency case;

a decision refusing to declare the debtor insolvent (the third paragraph of part one of this article)—in the absence of signs of insolvency, as well as in the event that, before a judicial act on the merits of the case is rendered, creditors' claims were satisfied or false insolvency was established;

a ruling on the introduction of judicial rehabilitation and the extension of its term (the fourth paragraph of part one of this article)—if a motion of the meeting of creditors for the introduction of judicial rehabilitation has been received by the court or where there are grounds for recognizing this procedure as a real possibility of restoring the debtor's solvency (see the commentary to Article 95 of the Law). It should be noted that, although this paragraph mentions the extension of the term of judicial rehabilitation, such a ruling is issued not based on the results of the consideration of the insolvency case, but in the course of the judicial rehabilitation procedure itself;

a ruling on the introduction of external management and the extension of its term (the fifth paragraph of part one of this article)—if a motion of the meeting of creditors for the introduction of external management has been received by the court and there are grounds for recognizing this procedure as a real possibility of restoring the debtor's solvency (see the commentary to article 108 of the Law). It should be noted that, although this paragraph also mentions the extension of the term, it is carried out not based on the results of the consideration of the case, but in the course of external management.

A ruling on the termination of the proceedings in the insolvency case (the sixth paragraph of part one of this article)—such a ruling is issued by the court in the course of the consideration of the insolvency case if the authorized state body has adopted a decision on the expediency of applying pre-trial rehabilitation in respect of an enterprise in whose charter fund (charter capital) there is a state share, and the creditors agree to the application of this procedure (part three of Article 62 of the Law), or if, in the insolvency case of an individual entrepreneur, all of its debts have been repaid as a result of the performance of the debt repayment plan (part five of Article 229 of the Law), or in the event that all creditors that have asserted claims withdraw their claims (the fifth paragraph of part one of Article 57).

In addition to the said cases, where there are grounds provided for in Article 110 of the EPC, the proceedings in an insolvency case may also be terminated by the court in other cases not expressly specified in this provision. For example, the proceedings are subject to termination in accordance with paragraphs 2 and 4 of part one of article 110 of the EPC if there is a court decision that has entered into legal force declaring the debtor insolvent, as well as in the event of the debtor's exclusion from the state register in connection with its liquidation.

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30. If there is a court decision declaring the debtor bankrupt, or the debtor has been liquidated and excluded from the state register, the proceedings in the insolvency case shall be terminated on the basis of paragraph 2 or 4 of Article 110 of the EPC, respectively.

However, it should be emphasized that, for insolvency cases, not all the grounds specified in this article are subject to application, that is, some of them are not used with regard to the specific nature of such cases.

A ruling on leaving the application to declare the debtor insolvent without consideration (the seventh paragraph of part one of this article) is issued upon the establishment of the grounds provided for in Article 107 of the EPC.

As circumstances that may serve as a ground for issuing the said ruling in the course of the consideration of an insolvency case, the following may be cited: (a) an insolvency case in respect of the same debtor is already pending before the court (paragraph 1 of part one of Article 107 of the EPC); (b) the application is not signed or is signed by a person not entitled to sign it, or is signed by a person without an indication of official position (paragraph 3 of part one of Article 107 of the EPC).

It should be emphasized that not all the grounds provided for in this article are subject to application to an insolvency case, that is, some grounds are not applied owing to the specific nature of insolvency cases. For example, paragraph 6 of article 107 of the EPC (the claimant's failure to appear at the court hearing) cannot be applied to an insolvency case, since, after the initiation of the case, the right to protect the interests of creditors passes to the meeting of creditors, and the further fate of the debtor depends on the will of the meeting of creditors, that is, an application of a private-law nature is transformed into public relations affecting the interests of other persons.

A ruling on the approval of a settlement agreement (the eighth paragraph of part one of this Article) is issued by the court in the event of the conclusion of a settlement agreement between the debtor and the creditors in the course of the consideration of the insolvency case.

Of the enumerated judicial acts, the decision declaring the debtor insolvent and commencing liquidation proceedings (the second paragraph of part one of this article) and the decision refusing to declare the debtor insolvent (the third paragraph of part one of this article) are judicial acts on the merits of the case (decisions) adopted in accordance with Chapter 21 of the EPC. The remaining judicial acts are rulings issued in accordance with Chapter 22 of the EPC that do not resolve the case on the merits.

2. Under part two of this article, judicial acts in an insolvency case, unless otherwise established by this Law, are subject to immediate enforcement. A copy of the judicial act in the insolvency case is sent by the court without delay to the state enforcement officer at the debtor's location (place of residence). This provision is an exception to the general rule that a court decision is subject to enforcement after it has entered into legal force (part four of Article 196 of the EPC).

However, this does not mean that the judicial acts enter into legal force immediately upon their adoption. They may be appealed against (a protest may be filed against them) in the manner provided for by the EPC. At the same time, the filing of an appeal (protest) against the judicial acts does not suspend their enforcement.

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26. In accordance with Article 51 of the Law, the decisions and rulings of the court in an insolvency case are subject to immediate enforcement. However, they may be appealed against (protested) in the manner provided for by the EPC.

Article 52. Decision Declaring the Debtor Bankrupt and Commencing Liquidation Proceedings

A court decision declaring the legal entity debtor bankrupt and commencing liquidation proceedings shall be adopted in cases where the signs of insolvency provided for in part one of Article 5 of this Law are established, in the absence of grounds for the introduction of one of the restorative insolvency procedures, the approval of a settlement agreement or the termination of the proceedings in the insolvency case.

A court decision declaring the legal entity debtor bankrupt and commencing liquidation proceedings must contain indications regarding the declaration of the debtor as bankrupt and the commencement of liquidation proceedings, the appointment of a liquidation manager and the payment of remuneration to it.

A court decision declaring the legal entity debtor bankrupt and commencing liquidation proceedings may be appealed against (protested) by the persons participating in the insolvency case, including by any of the creditors, as well as by persons not joined to the participation in the case concerning whose rights and obligations the court adopted the decision.

A court decision declaring the individual entrepreneur debtor bankrupt and commencing liquidation proceedings shall indicate the recognition as having lost force of the debtor's state registration as an individual entrepreneur.

This article defines the content and procedure for issuing a court decision declaring the debtor insolvent and opening of liquidation proceedings.

1. Part one of this article establishes that a court decision declaring a debtor legal entity insolvent and on the opening of liquidation proceedings is adopted in the absence of grounds for the introduction of one of the insolvency-restoration procedures, the approval of a settlement agreement or the termination of the proceedings in the insolvency case, where the signs of insolvency provided for in part one of Article 5 of this Law are established.

This provision defines the conditions under which a legal entity is declared insolvent and liquidation proceedings are opened in respect of it. It should be borne in mind that the provisions of this part also apply as a condition for declaring insolvency and opening liquidation proceedings in respect of an individual entrepreneur.

It should be noted that there are also exceptional cases in which this part of the Law does not apply. If the application to declare the debtor insolvent is filed on the basis of part one of Article 8 of this Law or parts one and two of Article 9 of this Law, the provisions of this part do not apply. That is, in this case, where there are grounds provided for in part one of Article 8, as well as parts one and two of Article 9, and in the absence of grounds for the introduction of judicial rehabilitation or external management, the approval of a settlement agreement or the termination of the proceedings in the insolvency case, the court adopts a decision declaring the debtor insolvent and on the opening of liquidation proceedings. For city-forming enterprises and organizations equated to them, upon the filing of an application to declare insolvency, the impossibility of performing the obligations within six months is deemed an indication of insolvency. Upon the filing of an application to declare a legal entity being liquidated insolvent (part two of Article 238 of the Law), if the value of the property of such a legal entity is insufficient to satisfy creditors' claims, the court adopts a decision declaring it insolvent and on the opening of liquidation proceedings. In the event of the filing of an application to declare an absent debtor insolvent (Article 241 of the Law), if the manager of the individual entrepreneur debtoror legal entity is absent and it is impossible to establish its location (place of residence), or there is no property of the debtor, the court adopts a decision declaring it insolvent and on the opening of liquidation proceedings.

In this case, the decision adopted is connected not only with declaring the debtor insolvent, but is also simultaneously deemed a decision on the opening of liquidation proceedings in respect of the debtor. In other words, liquidation proceedings may be opened only simultaneously with declaring the debtor insolvent.

2. Part two of this article defines the content of a court decision declaring the debtor insolvent and on the opening of liquidation proceedings: it must indicate that the debtor has been declared insolvent and that liquidation proceedings have been opened in respect of it. In addition, this decision indicates the person appointed as the liquidation manager (if, by this moment, a candidate meeting the requirements of the legislation has been submitted), and also determines the amount of the remuneration payable to such a manager.

3. This part establishes the possibility of filing an appeal (protest) against a court decision declaring the debtor insolvent and on the opening of liquidation proceedings. Since the said decision is issued by the court based on the results of the consideration of the insolvency case, the appeal against it (protest) is carried out in the manner provided for by the EPC. If the appointment of the liquidation manager was made simultaneously with the adoption of the decision declaring the debtor insolvent and on the opening of liquidation proceedings, then the persons participating in the insolvency case that do not agree with the candidate of the appointed judicial manager are entitled to appeal against the part of the judicial act concerning the appointment of the judicial manager in the manner provided for in Article 60 of the Law.

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27. Rulings on the appointment (release, replacement) of judicial managers may be appealed against (protested) in the manner provided for by the Law. If the rehabilitation manager or the external manager is appointed simultaneously with the introduction of the judicial rehabilitation or external management procedure, and the liquidation manager, simultaneously with declaring the debtor bankrupt and the opening of liquidation proceedings, and if the information on their appointment is indicated in the ruling on the introduction of judicial rehabilitation or external management or in the court decision declaring the debtor bankrupt, the persons participating in the insolvency case are entitled to appeal against the judicial act in the part concerning the appointment of the judicial manager in the manner provided for by the Law.

4. In accordance with part three of Article 233 of the Law, from the moment the court adopts a decision declaring the individual entrepreneur debtorinsolvent, the state registration of this entrepreneur as an individual entrepreneur loses force, and the effect of the licenses issued to it for the carrying out of certain types of activity also ceases. Accordingly, part four of this article establishes that a court decision declaring the individual entrepreneur debtorinsolvent must indicate that its state registration as an individual entrepreneur has lost force.

The court is obliged to send a copy of the decision declaring the individual entrepreneur debtorinsolvent to the body that carried out its state registration as an individual entrepreneur, as well as to the licensing body (part four of Article 233 of the Law).

Article 53. Publication of Information on the Judicial Acts Issued by the Court

Information on the court rulings issued on the introduction of the observation, judicial rehabilitation or external management procedures, on the termination of the proceedings in the insolvency case, on the appointment, replacement or release of the judicial manager, on the adoption of a decision declaring the legal entity debtor bankrupt and commencing liquidation proceedings, and the rulings on the reversal or modification of the said acts shall be published in the mass media. The list of mass media, the periodicity and time limit for the publication of the said information, the prices for the services rendered and the procedure for financing shall be established by the Cabinet of Ministers of the Republic of Uzbekistan.

The judicial manager, within three days from the date of receipt of the corresponding judicial act, shall send the announcement provided for in part one of this article to the mass media.

Information on judicial acts sent for publication shall be published within three days from the day of its receipt.

The reimbursement of the costs connected with the publication of the information specified in part one of this article shall be carried out at the expense of the debtor's monetary funds, unless otherwise provided for by this Law or by a decision of the meeting of creditors or the creditors' committee. In the absence of monetary funds of the debtor, the payment for the publication of such information shall be made at the expense of the applicant that filed the application to initiate the insolvency case with the court, with the subsequent reimbursement of the said funds at the expense of the debtor's property.

In the event of the absence of property of the debtor sufficient to reimburse the publication costs, it shall be carried out at the expense of the applicant that applied to the court with the application to initiate an insolvency case against the debtor.

Information on the judicial acts issued by the court may also be published in other mass media.

This article establishes the procedure for publishing information on the judicial acts in an insolvency case in the mass media, defines the time limits and the persons carrying out such publication, as well as the procedure for reimbursing the costs connected with the publication of the corresponding information.

1. In accordance with part one of this article, information on the following judicial acts issued within the framework of an insolvency case is subject to mandatory publication: on the introduction by the court of observation, judicial rehabilitation or external management, on the termination of the proceedings in the insolvency case, on the appointment, replacement or release of the judicial manager from the performance of its duties, as well as on the adoption of a decision declaring the debtor insolvent and on the opening of liquidation proceedings. Information on the adoption of judicial acts by the courts of appellate, cassation and supervisory

instances by which the said judicial acts were modified or reversed is also subject to publication in the official publication.

This provision is imperative in nature and provides that the publication of the corresponding information must be carried out in the official publication determined by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan of 11 June 2009 No. 160 "On Measures to Streamline the Publication of the Information Provided for by the Law of the Republic of Uzbekistan 'On Bankruptcy'." Under the said Resolution, the mass media in which the information provided for by the Law is published are determined to be the economic newspaper "Birzha" (Biznes-Daily) and (or) the official website of the authorized body. The corresponding decision was adopted with the participation of the authorized body, the Tax Committee and the Agency of Information and Mass Communications. The newspaper "Birzha" is distributed throughout the territory of the Republic of Uzbekistan with a circulation of not less than 1,000 copies and ensures the weekly publication of insolvency information. The cost of publishing insolvency information in the newspaper "Birzha," at a font size of not less than 7 points and a line spacing of not less than 8 points, may not exceed 1.0 percent of the base calculation value per square centimeter of the publication area, inclusive of value added tax. The costs connected with the publication of insolvency information in the newspaper "Birzha" are reimbursed in the manner established by the Law.

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23. It is to be clarified to the courts that the publication in the mass media of the necessary information provided for by Articles 53 and 54 of the Law, in accordance with paragraph 1 of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan of 11 June 2009 No. 160, is carried out in the economic newspaper "Biznes-Daily 'Birzha'" and (or) on the official website of the authorized state body.

2. Part two of this article defines the person responsible for the publication of the information, as well as the time limits for sending the information for publication and the time limits for its publication. The obligation to send the announcements for publication is charged to the judicial manager (the temporary manager, the rehabilitation manager, the external manager), which is obliged to fulfill this requirement of the Law within three days from the day of its appointment. An exception to this rule is the information on declaring the debtor insolvent and on the opening of liquidation proceedings. In accordance with part three of Article 143 of the Law, the liquidation manager is obliged to send such information for publication in the mass media not later than ten days from the day of its appointment. The

newspaper is obliged to publish the insolvency information within three days after its receipt from the interested persons and provided that the cost of the publication is paid in full. Although this is not expressly indicated in this part of the article, in the case of the insolvency of an individual entrepreneur, no judicial manager is appointed for it. Therefore, the obligation to publish the announcement on declaring the individual entrepreneur insolvent and on the opening of liquidation proceedings is charged to the individual entrepreneur itself.

3. Information on published judicial acts is posted as follows: the newspaper "Birzha" publishes the insolvency information within three days after its receipt from the interested persons and full payment of the cost of the publication; ensures the posting of the insolvency information on the website of the newspaper "Birzha" without charging an additional fee, and also provides free access to the information posted on the website; on a separate page of the official website of the authorized body, the judicial manager, through its personal account, posts the information subject to publication in the insolvency case, certifying it with its electronic digital signature. The posting of information on the said page is carried out free of charge.

4. In accordance with part four of this article, as a general rule, the costs of publishing the information are incurred at the expense of the debtor's monetary funds. The sources in which the information on the judicial acts is to be published may be determined by a decision of the meeting of creditors (the creditors' committee). For example, the meeting of creditors (the creditors' committee) is entitled to adopt a decision to carry out the publication at the expense of one of the creditors. If the debtor has no monetary funds, the payment of the costs of publishing such information is made by the judicial manager. The costs it has incurred are subsequently reimbursed at the expense of the debtor's property.

5. If the judicial manager has incurred costs for publishing the information provided for by the Law at the expense of its own funds, it is entitled to demand the reimbursement of these costs from the debtor. If the debtor has no property or it is insufficient to cover the publication costs, the judicial manager is entitled to demand the reimbursement of such costs at the expense of the creditor that applied to the court with the application to declare the debtor insolvent. If the proceedings in the case have been initiated upon the application of the authorized state body and the debtor has no property, or it is insufficient to cover the publication costs, the reimbursement of the judicial manager's costs is carried out at the expense of the funds of the Agency for the Management of State Assets of the Republic of Uzbekistan.

If the insolvency case has been initiated upon the application of the state tax service authority, the judicial manager is appointed from among the employees of the tax authorities, and the corresponding information is published free of charge in the official printed publication of the Tax Committee.

6. Information on the judicial acts issued by the court may, along with publication in the publications specified in part one of this article, also be published in other mass media.

See also: International Commentary, p. 740.

Article 54. Publication of Information on the Progress of Insolvency Procedures

Information on the progress of insolvency procedures shall be subject to mandatory publication in the mass media.

The reimbursement of the costs connected with the publication of information on the progress of insolvency procedures shall be carried out at the expense of the debtor's property, unless otherwise provided for by this Law. In the absence of property of the debtor sufficient to reimburse the publication costs, it shall be carried out in accordance with a decision of the meeting of creditors or the creditors' committee.

In the event that the number of the debtor's creditors exceeds fifty or their number cannot be determined, information on the commencement of each insolvency procedure applied in respect of the debtor shall also be subject to mandatory publication in the mass media.

On the basis of a decision of the meeting of creditors or the creditors' committee, the information subject to mandatory publication may also be published in other mass media.

The published information on the progress of insolvency procedures must contain:

the name (surname, first name, patronymic) of the debtor and its location (postal address), email address (if any);

the name of the court that adopted the judicial act, the date of the adoption of such a judicial act and an indication of the name of the insolvency procedure introduced, as well as the number of the insolvency case;

the surname, first name and patronymic of the appointed judicial manager and its postal address, email address (if any);

the date, set by the court, of the next court hearing for the consideration of the insolvency case;

information on the possibility for persons that have expressed the wish to repay the debtor's debt to apply to the judicial manager;

other information in the cases provided for by this Law.

This article defines the procedure for publishing information on the progress of insolvency procedures in the mass media, the content of such publications, the procedure for reimbursing the costs connected with their publication, as well as the grounds for publishing additional information.

1. Part one of this article establishes the mechanism for informing the public, primarily creditors, of the initiation of an insolvency case against an enterprise or a natural person, as well as of the progress and results of the corresponding procedures.

Insolvency procedures, as a rule, involve the participation of a large number of persons—the debtor, the creditors, the judicial manager and the court. Therefore, the openness of information is not only a legal requirement, but also a necessary condition for protecting the interests of all participants in the process. The obligation to publish information established by Article 54 serves three important purposes:

first, it makes it possible to identify unknown creditors—sometimes not all of the debtor's creditors are known to the other participants in the process, and publication in the mass media informs them of the need to assert their claims in good time; *second,* it prevents the arising of disputes and abuses—where the procedure is conducted openly, the interested persons can monitor its progress and raise objections in the event that any violations of the law are identified; *third,* it contributes to attracting third parties interested in acquiring the debtor's property or in repaying its indebtedness, which, in turn, ensures more effective protection of the interests of creditors.

By this provision, the legislator establishes an imperative rule: information on the progress of insolvency procedures is subject to mandatory publication in the mass media. The word "mandatory" in this case means not a right of choice, but a legal obligation, that is, deviation from this requirement is not permitted.

The publication of information in the mass media may be carried out through printed publications, internet platforms and official websites. In practice, in the Republic of Uzbekistan, the main platforms for the publication of such information are the official information databases of legal entities, the state registers and the information resources of the judicial authorities. The obligation to publish the said information is charged to the judicial manager. It is responsible for observing the established publication procedure and bears responsibility for incurring the necessary costs connected with the posting thereof.

The obligation to publish applies equally to all types of insolvency procedures—observation, judicial rehabilitation, external management, liquidation proceedings and others. This provision requires that a separate publication be carried out for each procedure, since each of them signifies the arising of a new legal status and may entail the need for creditors to perform new actions to protect their rights and legitimate interests.

The information subject to mandatory publication in the mass media in accordance with Articles 53 and 54 of the Law, under paragraph 1 of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 160 of 11 June 2009, is published in the economic newspaper "Biznes-Daily 'Birzha'" and (or) on the official website of the authorized state body.

2. Part two of this article governs the question of financing the costs connected with the publication of information. This question is of practical significance, since the costs of publication in the mass media may, in certain cases, amount to a fairly considerable sum. The principal rule is the financing of such costs at the expense of the debtor's property.

Under the general rule, the publication costs are subject to reimbursement at the expense of the debtor's property. Such a procedure is understandable and logical, since the insolvency procedures are carried out primarily in the interests of the debtor itself (for the settlement of its financial position and, where possible, the restoration

of solvency by means of the procedures of observation, judicial rehabilitation, external management and others), as well as in the interests of its creditors.

The said costs are among the first-priority costs in the case, that is, they are subject to payment before the distribution of the debtor's property among the creditors in the course of the corresponding procedure. This grants the judicial manager the right to allocate the necessary funds from the debtor's property for carrying out the mandatory publications.

If the debtor does not have property in a volume sufficient to cover the publication costs, a different procedure is provided for by the legislation. In particular, such costs are assumed by the creditors in accordance with a decision of the meeting of creditors or the creditors' committee. The persons most interested in the conduct of this procedure—the creditors—must be prepared to bear the necessary administrative costs connected with its implementation.

In practice, the meeting of creditors may adopt a decision on the distribution of the costs among the participants in proportion to the amount of their claims. This mechanism makes it possible to exclude situations in which financial difficulties impede the performance of the obligation to publish information, and prevents the suspension or protraction of the insolvency procedure.

3. Part three of this article deserves special attention. If the number of the debtor's creditors exceeds fifty or it is impossible to establish their number, information on the commencement of each insolvency procedure is subject to mandatory publication in the mass media.

What does this provision mean? In the cases of large enterprises with a large number of creditors, the judicial manager may objectively be unable to send notices to all creditors in time, or may be unable to establish their complete list. This is especially relevant where, among the creditors, there are unknown persons or entities not fully reflected in the documentation. In such situations, publication in the mass media becomes the only effective means of notifying all interested persons of the commencement of the procedure, ensuring that they are informed and have the opportunity to assert their claims in good time.

Special attention should be paid to the expression "if it is impossible to establish the number of creditors." This situation is most often applicable with respect to organizations with a broad consumer base (banks, insurance companies, social-service organizations), as well as in the case of indebtedness not executed in notarial form, or in the case of obligations that arose as a result of lengthy and complex business operations, where, at the moment of the initiation of the case, it is practically impossible to determine the exact number of creditors.

This provision is aimed at ensuring the principle of equal treatment of creditors: so that no one obtains an advantage merely because it was the first to learn the information, the information is brought to the attention of all creditors simultaneously through mass publication in the mass media.

4. Part four of this article establishes that information subject to mandatory publication on the basis of a decision of the meeting of creditors or the creditors' committee may also be published in other mass media. This provision provides additional flexibility in the choice of mass media: the law does not specify a particular publication or platform for publication, but affords the meeting of creditors and the creditors' committee the opportunity to choose, on their own, suitable mass media for posting the information. For example, for a local enterprise, a regional newspaper or website may be more appropriate, whereas for a large company, national publications are preferable.

At the same time, it is important to emphasize that the choice of the source of publication must ensure the effective notification of creditors. The use of obscure or narrowly targeted mass media may call into question the proper notification of the interested persons, since the court may subsequently verify whether the information was in fact brought to the attention of all participants in the process.

5. Part five of this article sets out in detail the minimum requirements for the content of the publication. Let us consider these requirements individually:

5.1. Information identifying the debtor. The announcement must specify the full name of the debtor (for legal entities—the company name; for natural persons—the surname, first name and patronymic), the location and postal address. The email address is also specified, if any. This data enables creditors and other interested persons to precisely identify the debtor and to send it communications and the corresponding documents. The term "location" is understood to mean the legal address or the address of state registration, which may differ from the actual address where the activity is carried out. In practice, judicial managers, as a rule, indicate both addresses for the convenience of creditors and third parties.

5.2. Information on the judicial act. The announcement shall specify the name of the court that adopted the judicial act, the date of its issuance, the name of the insolvency procedure introduced (for example, observation, judicial rehabilitation, external management and so forth), as well as the number of the insolvency case. The case number is of special significance, since it enables creditors and other interested persons to find the corresponding materials in the database of court cases, to participate in court hearings and to send official communications. Without the case number, the actual tracking of the judicial process is considerably impeded.

5.3. Information on the judicial manager. The surname, first name and patronymic of the appointed judicial manager, as well as its postal address and, if any, its email address, are subject to mandatory indication. The judicial manager performs the function of the principal intermediary between the creditors and the debtor within the framework of the adversarial procedure, and therefore its contact details are necessary for creditors to send their claims in a timely and correct manner. The publication of the judicial manager's contact information in the mass media facilitates the exercise of creditors' rights and contributes to a more expeditious conduct of the procedure without delays. In practice, judicial managers often

additionally indicate a business email address and a work telephone number to simplify interaction with creditors.

5.4. The date of the court hearing. The announcement must specify the date, set by the court, of the next court hearing in the insolvency case. This information enables creditors to participate in the court hearing, to set out their position and objections, and to prepare the necessary documents in good time. The date of the session serves as a reference point for creditors for procedural actions. If a creditor is not notified of the court hearing in good time, it may lose the opportunity to protect its rights and legitimate interests. Therefore, the mandatory indication of this information in the announcement ensures the principle of the equality of creditors.

5.5. Information for persons wishing to repay the indebtedness. The announcement must also specify that persons that have expressed the intention to repay the debtor's indebtedness may apply to the judicial manager. This provision serves a broader purpose: it attracts third parties—investors, partners, as well as persons prepared to acquire the debtor's enterprise. Owing to this mechanism, it is possible to settle the insolvency without waiting for the sale of the debtor's property: a third party may repay all the debts and thereby bring the debtor out of the procedure.

In such a case, from a legal standpoint, subrogation or a right of recourse arises: the third party takes the place of the creditors and acquires the right to demand the performance of the obligations from the debtor. This provision contributes to the realization of the principle of "restoration" in insolvency procedures instead of an exclusively liquidation-based approach.

5.6. Other information provided for by law. In accordance with this provision, the information subject to publication within the framework of insolvency procedures is not limited to the list specified in the article, but may also include additional data provided for by other provisions of the legislation. For example, this may be information on the date of the holding of the meeting of creditors, the procedure for the sale of the debtor's property, the conclusion of a settlement agreement or the reports of the judicial manager. Such information is subject to publication in the cases where this is expressly provided for by law. This approach ensures the openness and transparency of the procedure of insolvency, and also contributes to the complete and timely informing of creditors and other interested persons.

See also: International Commentary, p. 740.

Article 55. Court Decision Refusing to Declare the Debtor Bankrupt

A court decision refusing to declare the debtor bankrupt shall be adopted in the event of:

the non-establishment of signs of insolvency;

the satisfaction of the asserted claims of creditors before the court adopts a decision in the insolvency case;

the establishment of false insolvency.

A court decision refusing to declare the debtor bankrupt may also be adopted in other cases provided for by this Law.

Where there is evidence indicating that the debtor has a sufficient volume of liquid property, the court is entitled, upon a motion by the debtor, to adjourn the consideration of the insolvency case, proposing that the debtor repay creditors' claims within a time limit established by the court, which may not exceed thirty days.

This article establishes the grounds for refusing to declare the debtor insolvent, as well as other cases in which such a decision may be adopted, and the procedure for adjourning the consideration of the case in order to satisfy creditors' claims where the debtor has sufficient liquid property.

1. Under part one of this article, a court decision refusing to declare the debtor insolvent is adopted in the following cases: (a) if signs of insolvency are not established, that is, if the delay in the debtor's performance of its obligations is less than the period established by Article 5 of the Law, and the total amount of the claims against the debtor is less than the threshold value established by law (Articles 195 and 228 of the Law); (b) if, before the court renders a decision in the insolvency case, creditors' claims were satisfied. In the course of observation, that is, during the consideration of the case, the satisfaction of claims is permitted provided that the indebtedness to all creditors is repaid simultaneously. It should be noted that, after the full satisfaction of the claims of all creditors, the court, in accordance with this article, renders a decision refusing to declare the debtor insolvent. In addition, if the individual entrepreneur—the debtor has satisfied all the claims within the deferred period granted upon its application within the framework of the insolvency case, the court also adopts a decision refusing to declare the debtor insolvent; (c) if false insolvency is established. Where there are signs of false insolvency, a decision refusing to declare the debtor insolvent is adopted when the application to declare the debtor insolvent was filed while the debtor had the ability to fully satisfy creditors' claims, or when the debtor did not take measures to contest the unfounded claims of the applicant.

False insolvency—the causing of harm to creditors as a result of a declaration by a legal entity or natural person, as well as an individual entrepreneur, of its insolvency, where the person is knowingly aware of its actual economic ability to perform its obligations but nonetheless declares the impossibility of fully satisfying creditors' claims under monetary obligations and (or) performing the obligations to pay taxes and duties.

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28. In accordance with Article 55 of the Law, a court decision refusing to declare the debtor bankrupt is adopted in the event of the non-establishment of signs of insolvency, the satisfaction of the asserted claims of creditors before the court adopts a decision in the insolvency case, the establishment of false insolvency and in other cases provided for by the Law.

The courts should bear in mind that, if the debtor is declared bankrupt on the basis of its application and, in the course of the liquidation proceedings, false insolvency is established, this circumstance may serve as a ground for the review of the court decision declaring the debtor bankrupt and commencing liquidation proceedings on the basis of newly discovered circumstances, upon the application of the persons participating in the case. In the event of the reversal of the court decision on the basis of newly discovered circumstances, based on the results of the consideration of the case in the established general procedure, a decision refusing to declare the debtor bankrupt is adopted.

2. Under part two of this article, a decision refusing to declare the debtor insolvent may also be rendered in other cases provided for by law. An example of this is the situation specified in Article 5 of the Law, where the obligations of a city-forming enterprise are not performed within six months. In such a case, if the case to declare the city-forming enterprise insolvent was initiated without justification and, in the course of the consideration of the case, it is established that the period of non-performance of the obligations is less than six months, the court renders a decision refusing to declare the debtor insolvent.

3. Where there is evidence confirming that the debtor has a sufficient volume of liquid property, the court, upon a motion by the debtor, is entitled to adjourn the consideration of the insolvency case, proposing that the debtor satisfy creditors' claims within a time limit established by the court, which may not exceed thirty days. In such a case, the court issues a ruling adjourning the consideration of the case within the time limits established by Article 50 of the Law. The said ruling is not subject to appeal (protest) in accordance with Article 171 of the EPC.

Where the debtor, on the condition of satisfying the creditor's claims in the manner provided for in this part, during the period of adjournment of the consideration of the insolvency case and with the simultaneous satisfaction of the claims of all creditors, has completed the full satisfaction of the claims of all creditors, the court renders a decision refusing to declare the debtor insolvent.

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29. Under part three of Article 55 of the Law, where there is evidence indicating that the debtor has liquid property in a sufficient volume, the court is entitled, upon a motion by the debtor, to adjourn the consideration of the insolvency case, proposing that the debtor repay creditors' claims within a time limit established by the court, which may not exceed thirty days.

The courts should bear in mind that, in the event of the debtor's failure to repay creditors' claims within the time limit established by the court and the establishment of the signs of insolvency provided for in part one of Article 5 of the Law, in the absence of grounds for the introduction of one of the restorative insolvency procedures, the approval of a settlement agreement or the termination of the proceedings in the insolvency case, the court adopts a decision declaring the debtor bankrupt and commencing liquidation proceedings.

Article 56. Consequences of the Adoption of a Decision Refusing to Initiate the Debtor's Insolvency Case

The adoption by the court of a decision refusing to initiate the debtor's insolvency case constitutes a ground for the termination of the effect of all restrictions that are a consequence of the admission of the application to initiate the debtor's insolvency case and (or) the introduction of the observation procedure.

This article defines the consequences of the adoption by the court of a decision refusing to initiate the debtor's insolvency case.

The adoption by the court of a decision refusing to initiate the debtor's insolvency case constitutes a ground for the termination of the effect of all restrictions that arose in connection with the admission of the application concerning the debtor's insolvency and (or) the introduction of the observation procedure. Based on the content of this article, this concerns the consequences of the introduction of observation provided for in Articles 78 and 79 of the Law, as well as the measures to secure creditors' claims applied by the court to the debtor in accordance with Article 94 of the EPC and part two of Article 47 of the Law. At the same time, the security measures applied by the court in respect of the debtor within the framework of the insolvency case lose force from the moment the decision refusing to declare the debtor insolvent is rendered, whereas the provisions of the EPC, by contrast, provide for the retention of the measures to secure the claim until the decision enters into legal force.

Article 57. Grounds for the Termination of the Proceedings in an Insolvency Case

The court shall terminate the proceedings in an insolvency case in the event of:

the restoration of the debtor's solvency in the course of the judicial rehabilitation procedure;

the restoration of the debtor's solvency in the course of the external management procedure;

the conclusion of a settlement agreement;

the withdrawal by all creditors participating in the insolvency case of their asserted claims;

the satisfaction of all creditors' claims included in the register of creditors' claims in the course of any insolvency procedure.

The court may also terminate the proceedings in an insolvency case in other cases in accordance with the law.

The judicial manager, within three working days from the date the court's ruling on the termination of the proceedings in the insolvency case is issued, shall notify the state tax service authority of this ruling in writing.

This article establishes the grounds for the termination of the proceedings in an insolvency case, and also provides for the possibility of terminating such a case in other cases established by the legislation, and the procedure for notifying the state tax service authority after the court's ruling is issued.

1. This part of the article establishes special grounds for the termination of the proceedings in an insolvency case. Article 110 of the EPC provides for other grounds for the termination of the proceedings in an insolvency case; in the application of the procedural provisions, priority is given to the Law.

The restoration of the debtor's solvency in the course of judicial rehabilitation and the restoration of the debtor's solvency in the course of external management are identical concepts. At the same time, based on part three of Article 125 of the Law, the restoration of solvency is understood to mean the satisfaction of all claims whose time limit for performance has been overdue for more than three months from the moment the time limit for performance fell due. Under the conditions of judicial rehabilitation and external management, all claims included in the register of creditors' claims (the debt repayment schedule), at the moment of their performance, are already unperformed for more than three months from the moment the time limit for their performance fell due. Therefore, the restoration of the debtor's solvency during the period of judicial rehabilitation or external management in fact means the full satisfaction of all claims included in the register of creditors' claims (the debt repayment schedule). To clarify this matter, within the framework of judicial rehabilitation, this includes the early conclusion of the judicial rehabilitation

procedure (Article 102 of the Law), as well as the performance of obligations by the persons that provided security (Article 105 of the Law).

External management: in this case, all claims included in the register of creditors' claims are deemed satisfied in the following situations: upon the sale of the debtor's enterprise (business) (part twenty-one of Article 126 of the Law); upon the performance of the debtor's obligations by the founders, the owner of the debtor's property or third parties (parts one and two of Article 129 of the Law); upon the conduct of settlements with creditors or upon the commencement of settlements in the established order of priority on the basis of the court's ruling on the transition to settlements with creditors (part one of Article 137 of the Law). At the same time, it should be noted that, in external management, where there are funds sufficient to satisfy all the claims included in the register, the court, based on the results of the consideration of the external manager's report, issues a ruling on the transition to settlements with creditors in connection with the restoration of the debtor's solvency and the termination of external management (Article 135 of the Law). At the moment this ruling is issued, although external management is terminated, the proceedings in the insolvency case are not yet concluded.

It should also be noted that, when considering the question of the termination of the proceedings in an insolvency case in the procedures of judicial rehabilitation and external management, the court does not take into account claims in respect of current payments, as well as out-of-turn claims connected with compensation for harm to life or health and the like, since such claims are satisfied outside the framework of the insolvency case on an individual basis and are not included in the register of creditors' claims.

As provided for in this provision, the proceedings in an insolvency case are also terminated in the event of the conclusion of a settlement agreement; for the settlement agreement to enter into force, it must be approved by the court (part five of Article 145 of the Law). In the course of the procedures of observation, judicial rehabilitation, external management and liquidation proceedings, the approval of the settlement agreement by the court entails the termination of the proceedings in the insolvency case (part one of Article 150 of the Law). A ruling on the approval of the settlement agreement is issued, in which the termination of the proceedings in the insolvency case is indicated (part five of Article 145 of the Law).

The withdrawal by all creditors participating in the insolvency case of their asserted claims is recognized as a ground for the termination of the proceedings in the insolvency case, since the assertion of claims against the debtor is not an obligation, but a right of the creditor, and it may, accordingly, at any moment (at any stage of the insolvency procedure) refuse to exercise this right. At the same time, in this situation, the matter concerns not the forgiveness of the debt (or another termination of the debtor's obligations), but precisely the creditor's withdrawal of its previously asserted claims. It should be noted that the withdrawal of claims by some

of the creditors (including the applicant-creditor) does not affect the proceedings in the insolvency case as a whole.

The satisfaction of all creditors' claims included in the register of creditors' claims at any stage of the insolvency procedure is also established by the Law as one of the grounds for the termination of the proceedings in the insolvency case.

It should be noted that, although the Law provides that, upon the satisfaction of all creditors' claims included in the register of creditors' claims at any stage of the insolvency procedure, the proceedings in the case are subject to termination, this rule is in fact applied predominantly at the stage of liquidation proceedings. This is because, in judicial rehabilitation, upon the full satisfaction of the claims of creditors included in the register, the proceedings in the insolvency case are terminated in accordance with the second paragraph of part one of this article, and, in external management, in accordance with the third paragraph of part one of this article. During the period of observation, the satisfaction of creditors' claims is permitted provided that they are repaid simultaneously to all creditors; however, upon the conclusion of such satisfaction, the court issues not a ruling on the termination of the proceedings in the case, but a decision refusing to declare the debtor insolvent in accordance with part one of Article 55 of the Law.

During the period of liquidation proceedings, there may be either the issuance of a ruling on the termination of the proceedings in the insolvency case upon the satisfaction of all creditors' claims included in the register of creditors' claims, or the issuance of a ruling on the conclusion of the liquidation proceedings.

It should be noted that, if, in the course of the liquidation proceedings, all creditors' claims included in the register are satisfied, but the debtor has no possibility of continuing economic activity, the court issues not a ruling on the termination of the proceedings in the insolvency case, but a ruling on the conclusion of the liquidation proceedings. If, however, in the course of the liquidation proceedings, the claims included in the register of creditors' claims are not satisfied in full with respect to a debtor legal entity, the court also issues not a ruling on the termination of the proceedings in the insolvency case, but a ruling on the conclusion of the liquidation proceedings.

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46. After the conclusion of the settlements and the full repayment of all the claims of the creditors of the individual entrepreneur debtor, the court issues a ruling on the conclusion of the liquidation proceedings.

In the event of the insufficiency of the property of the individual entrepreneur debtorto satisfy the claims of all creditors, the state enforcement officer returns to the court the writ of execution on the foreclosure on the debtor's property in

accordance with the rules established by Articles 37 and 39 of the Law of the Republic of Uzbekistan "On the Enforcement of Judicial Acts and Acts of Other Bodies." After considering the documents on the return of the writ of execution, the court issues a ruling on the conclusion of the liquidation proceedings.
If, however, in accordance with part two of Article 234 of the Law, a liquidation manager has been appointed by the court, then the conclusion of the liquidation proceedings is carried out under the rules established by Article 160 of the Law.

2. Under this provision, the court may also terminate the proceedings in an insolvency case in other cases.

Upon the creditors' consent to the conduct of pre-trial rehabilitation, the proceedings in the insolvency case are terminated (part three of Article 62 of the Law).

It should be noted that, in the bankruptcy of an individual entrepreneur, if, as a result of the performance of the debt repayment plan, creditors' claims are satisfied in full, the proceedings in the insolvency case are terminated (part five of Article 229 of the Law). If, however, the debtor, on its own initiative, within the period for which the consideration of the case was adjourned, fully repays the indebtedness, the court, in accordance with part one of Article 55, adopts a decision refusing to declare the debtor insolvent.

3. Under this provision, after the court issues a ruling on the termination of the proceedings in the insolvency case, the judicial manager is obliged, within three working days, to notify the state tax service authority in writing. For example, if the proceedings in the case have been terminated in connection with the restoration of the debtor's solvency or the satisfaction of creditors' claims, the judicial manager sends a corresponding official notice to the tax authority. This procedure ensures the timely notification of state bodies of changes in the debtor's legal and financial condition, and also contributes to the proper maintenance of tax accounting.

Article 58. Suspension of the Proceedings in an Insolvency Case

The proceedings in an insolvency case may be suspended on the grounds provided for by the Economic Procedural Code of the Republic of Uzbekistan.

The suspension of the proceedings in an insolvency case does not preclude the court's consideration of applications and complaints against the actions (omissions) of the judicial manager, as well as of disagreements regarding the amount, composition and order of priority of satisfaction of creditors' claims.

In the event of the suspension of the proceedings in an insolvency case, the court is not entitled to adopt the judicial acts provided for in part one of Article 51 of this Law.

The suspension of the proceedings in an insolvency case does not constitute an obstacle to the issuance by the court of the rulings provided for by this Law, nor to the performance by the judicial manager and other persons participating in the insolvency case of the actions provided for by this Law.

In the event of the initiation of a criminal case against the manager or the founders (participants) or the owner of the enterprise or individual entrepreneur and (or) the natural person for actions (omissions) that led to the insolvency, the proceedings in the insolvency case shall be suspended until the court adopts a decision in the initiated criminal case.

This article establishes the grounds for the suspension of the proceedings in an insolvency case, the legal consequences of such suspension, as well as the procedure for the mandatory suspension of the proceedings in the case until a court decision in the criminal case is rendered in certain cases.

1. This provision does not establish special grounds for the suspension of the proceedings in an insolvency case different from the grounds for the termination of the proceedings, that is, it does not contain a separate, specific list characteristic exclusively of the insolvency initiation. When issuing a ruling on the suspension of the proceedings in an insolvency case, the court applies Articles 101-102 of the EPC.

In accordance with Article 101 of the EPC, the court is obliged to suspend the proceedings in an insolvency case in the following cases: if the consideration of this case is impossible until a decision is adopted in another case or on another question being considered by the Constitutional Court of the Republic of Uzbekistan, a court for civil cases, a court for criminal cases, an administrative court or an economic court, as well as in a case within the framework of which investigative actions are being conducted; if the respondent-citizen is serving in the active component of the Armed Forces of the Republic of Uzbekistan, or if the claimant-citizen serving in the active component of the Armed Forces has filed a corresponding motion; in the event of the death of a citizen participating in the case, if the disputed legal relation permits legal succession; if a citizen participating in the case is declared incapable; if a party has filed with the authorized body a motion for the reversal or suspension of the enforcement of a decision of a foreign court or arbitration subject to recognition and enforcement; upon the conclusion of an agreement on the conduct of a mediation procedure.

In addition, in the cases provided for in Article 102 of the EPC, the court is entitled to suspend the proceedings in an insolvency case, namely: upon the appointment of a judicial expert examination; upon the rehabilitation of a legal entity participating in the case; upon the involvement of a citizen participating in the case in the performance of state duties; and upon the sending, in the established manner, of judicial commissions to the courts of foreign states for the performance of certain procedural actions connected with the resolution of the dispute on the merits.

2. Under this provision, even in the event of the temporary suspension of the proceedings in an insolvency case, the court is entitled to continue the consideration of certain procedural questions. In particular, the court may consider complaints against the actions or omissions of the judicial manager, as well as disputes connected with the amount, composition and order of priority of satisfaction of

creditors' claims. For example, if the main proceedings are suspended on other grounds, but a creditor files a complaint regarding the improper performance of duties by the judicial manager, the court considers such a complaint independently, irrespective of the suspension of the case. This procedure ensures the timely protection of creditors' rights, proper judicial control over the activity of the judicial manager and the prompt resolution of disputes arising in the course of the insolvency procedure.

3. Under part three of this article, upon the suspension of the proceedings in an insolvency case, the court is not entitled to adopt the following judicial acts: the decision declaring the debtor bankrupt and commencing liquidation proceedings, provided for in part one of Article 51 of the Law; the decision refusing to declare the debtor bankrupt; the ruling on the introduction of the rehabilitation procedure and the extension of its term; the ruling on the introduction of the external management procedure and the extension of its term; the ruling on the termination of the proceedings in the insolvency case; the ruling on leaving the application to initiate the insolvency case without consideration; the ruling on the approval of a settlement agreement. In other words, during the period of suspension of the case, the court may not issue the key final judicial acts connected with the progress and conclusion of the insolvency procedure.

4. Part four of this article does not preclude the issuance by the court of the rulings provided for by this Law upon the suspension of the proceedings in an insolvency case, with the exception of the rulings specified in part one of Article 51 of the Law. Also, the suspension of the proceedings in an insolvency case does not mean the cessation of the performance of duties by the judicial manager, since, based on this provision, such suspension must not preclude the performance by the judicial manager and other participants in the insolvency case of the actions provided for by law.

5. Under this provision, if a criminal case is initiated against the manager of the enterprise, the founders, the owner, the individual entrepreneur or the natural person on the facts of actions or omissions that resulted in the insolvency, the proceedings in the insolvency case are subject to suspension until the court decision in the criminal case is rendered. For example, if the manager of the enterprise is charged with the deliberate concealment of property, fictitious bankruptcy or the unlawful withdrawal of monetary funds that led to the insolvency, such actions are, first and foremost, subject to criminal-legal assessment. This procedure is aimed at establishing the actual causes of the insolvency, determining the degree of fault of the corresponding persons and preventing possible contradictions between the court decisions in the criminal and economic cases.

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25. The suspension of the proceedings in an insolvency case is permitted where there are grounds provided for in Articles 101 and 102 of the EPC.

The proceedings in an insolvency case are also suspended in the event of the initiation of a criminal case against the manager or the founders (participants) or the owner of the enterprise, the individual entrepreneur and (or) the natural person for actions (omissions) that led to the insolvency. The resumption of the proceedings in the insolvency case in this case is carried out after the entry into legal force of the judicial act issued by the court in the initiated criminal case, or after the conclusion of the investigative actions.

The courts should bear in mind that the proceedings in an insolvency case may be suspended not only until the adoption of one of the judicial acts specified in part one of Article 51 of the Law, but also until the adoption of a decision on an appellate (cassation) appeal (protest) and an appeal (protest) by way of revision.

In the event of the suspension of the proceedings in an insolvency case, the court is not entitled to issue the judicial acts specified in part one of Article 51 of the Law. At the same time, the insolvency procedure introduced by the court continues to be carried out, and the judicial manager retains the right to receive remuneration for the performance of its duties.

Article 59. Distribution of Court Costs and the Costs of Paying Remuneration to Judicial Managers

Court costs, including the costs of the state duty whose payment time limit was deferred or paid in installments, the costs of publishing information in the mass media in the manner provided for in Articles 53 and 54 of this Law, as well as the costs of paying remuneration to judicial managers, shall be paid at the expense of the debtor's property out of turn.

A settlement agreement may provide for a different procedure for distributing the costs specified in part one of this article.

In the event that the court adopts a decision refusing to declare the debtor bankrupt in connection with the non-establishment of signs of insolvency, the costs provided for in part one of this article shall be charged to the creditors that applied to the court with the application to initiate the debtor's insolvency case, and shall be distributed among them in proportion to their claims.

The procedure for distributing the court costs and the costs of paying remuneration to judicial managers shall be established in the decision or ruling of the court adopted based on the results of the consideration of the insolvency case.

This article provides for the sources of covering the court costs, the costs connected with the publication of information in the mass media, as well as the payment for the services of the judicial manager, the cases of distributing these costs

among the creditors, and the procedure for determining such distribution in the judicial act.

1. As specified in part one of this article, the costs connected with the state duty paid on a deferred or installment basis (Article 113 of the EPC), the costs of publishing information on declaring the debtor bankrupt and other information subject to mandatory publication in the mass media, as well as the costs of the judicial manager's remuneration, are covered at the expense of the debtor's property on an out-of-turn basis. They are subject to out-of-turn reimbursement, since the claims in respect of these costs arise after the court admits the application to declare the debtor bankrupt, or the time limit for their performance begins from the moment of the introduction of the corresponding bankruptcy procedure. As for the state duty paid upon the filing of the application to declare the debtor bankrupt, it should be noted that it, as a rule, arises before the court admits the application, and the time limit for its payment also falls due before the admission of the application. However, in certain cases, the court, upon a motion by the applicant, based on its property position, is entitled to grant a deferral or installment plan for the payment of the state duty (Article 113 of the EPC). In such a case, the state duty is included among the current payments and may be satisfied by the creditor on an out-of-turn basis. In addition, although it is not expressly indicated in this part, it should be understood that the costs connected with the payment for the services of the persons engaged by the manager for carrying out its activity are also among the court costs specified in this provision and are subject to out-of-turn reimbursement.

2. Under this provision, a settlement agreement concluded within the framework of an insolvency case may establish a different procedure for reimbursing the court costs, the costs of publication in the mass media and the costs connected with the payment of remuneration to the judicial manager, differing from the general procedure established by law. For example, the parties may provide in the settlement agreement that part of the said costs is covered by the creditors, and the other part, by the debtor. This provision is aimed at affording the parties the opportunity for a fair and flexible distribution of costs on the basis of mutual agreement.

3. Under this provision, if the court adopts a decision refusing to declare the debtor bankrupt in connection with the absence of signs of insolvency, the costs provided for in part one of this article are charged to the creditors that applied to the court to initiate the debtor's insolvency case, and are distributed among them in proportion to their claims. Exceptions include cases where the application is filed by the tax authority, another authorized body, or the authorized state body. Under Article 9 of the Law of the Republic of Uzbekistan "On State Duty" and paragraph 5 of the Resolution of the Plenum, the said bodies are exempt from payment of the state duty when applying to the court, and the court costs in insolvency cases are not charged to them.

4. Under this provision, when adopting the judicial acts provided for in part one of Article 51 of the Law, the court is obliged to determine the procedure for

distributing the court costs and the remuneration of the judicial manager. That is, the judicial act must indicate to whom and in what amount the costs connected with the consideration of the case (the state duty, the costs of publication in the official publications and other costs), as well as the remuneration payable to the judicial manager, are charged.

Article 60. Consideration of Applications and Complaints

Applications of the judicial manager, including those concerning disagreements that have arisen between it and creditors or between it and the debtor, as well as complaints of creditors concerning the violation of their rights and legitimate interests, filed in accordance with this Law in the course of the procedures of observation, judicial rehabilitation, external management or liquidation proceedings, shall be considered by the court not later than within a fifteen-day period from the day the said applications and complaints are received. Attached to the application of the judicial manager or the complaint of the creditor must be evidence of the sending of copies thereof to the other persons participating in the consideration of this application or complaint. Based on the results of the consideration of the said applications and complaints, the court shall issue a ruling. This ruling may be appealed against in the manner and within the time limits established by law.

In the manner established by part one of this article, the following shall be considered:

disagreements between the judicial manager and the representative of the debtor's employees regarding the amount and composition of claims for the remuneration of labor and the payment of severance pay to persons working under an employment contract;

complaints of creditors and of the representatives of the founders (participants) or of the owner of the debtor's property against the actions (omissions) of the judicial manager that infringe their rights and legitimate interests.

Applications and complaints filed by persons not entitled to appeal against the court's ruling, as well as in violation of the procedure provided for in parts one and two of this article, or without the attachment of evidence confirming the corresponding application or complaint, shall be returned.

This article establishes the time limits and procedure for the consideration of applications and complaints filed by the judicial manager, creditors and other interested persons in the course of insolvency procedures, the list of evidence attached to them, as well as the grounds for the return of such applications or complaints in the event of non-compliance with the requirements of the law.

1. Part one of this article establishes that the actions of the judicial manager, the rights of creditors and the obligations of the debtor often become a source of disputes. For the prompt and effective resolution of such disputes, the legislator has enshrined a special procedural mechanism in Article 60 of the Law. This provision governs three principal matters: first, the procedure and time limits for the consideration of applications and complaints; second, the special procedure for certain categories of submissions; third, the grounds for the return of applications and complaints. Taken together, these provisions form an independent procedural system for the resolution of disputes in insolvency cases.

The significance of this provision lies in the fact that insolvency procedures involve the participation of a large number of parties: the judicial manager, creditors of various ranks of priority, the debtor's founders, the representatives of the employees and other persons. The interests of these participants often conflict with one another, and therefore the law affords them the possibility of judicial protection of their rights and interests.

This part enshrines two principal categories of submissions considered by the court. *The first*—applications of the judicial manager. These include the submissions that the judicial manager files in connection with disagreements that have arisen between it and creditors or between it and the debtor. Since the judicial manager is the key managing subject of the procedure, situations often arise where its powers or decisions are contested by one of the parties. In such cases, it is entitled to apply to the court for the resolution of the dispute. *The second*—complaints of creditors. Creditors are entitled to appeal against the actions or omissions of the judicial manager in the event of the violation of their rights and legitimate interests. In addition, this category also includes complaints connected with the violation of creditors' rights by the actions of other participants in the procedure.

One of the most important provisions of this norm is the obligation to consider applications and complaints within fifteen days. This period begins to be calculated from the date the application or complaint is received by the court. For a correct understanding of the fifteen-day period, two aspects must be taken into account. First, the "day of receipt" is understood to mean the day of the official filing of the submission with the court and its confirmed admission by the court. If the application is filed with the court registry, it is precisely this date that is deemed the beginning of the calculation of the period. Second, the expression "not later than" means that the court is obliged to issue a ruling within this period—that is, not only to conduct the consideration, but also to adopt the final procedural decision.

As compared with the general provisions of the procedural legislation, this period is considerably shorter, which is due to the strategic significance of time in insolvency procedures. Prolonged uncertainty may impede the effective conduct of the procedure, lead to a reduction in the value of the property and diminish the possibility of satisfying creditors' claims.

The applicant filing an application or complaint is obliged to attach to its submission evidence that copies of this application or complaint were sent to the other persons participating in its consideration. This requirement is of important procedural significance. The purpose of this provision is as follows. First, it ensures the even distribution of information among the parties in the judicial process—no party should obtain an advantage owing to the other party's lack of awareness. Second, this requirement facilitates the work of the court, since the court does not need to spend time and resources separately on notifying the participants in the process. Third, the applicant bears responsibility for its procedural actions. As evidence of the sending of copies, the following are recognized in practice: postal receipts, confirmation of delivery by courier, printouts of electronic notices of sending by email, as well as copies of documents bearing a notation of personal delivery and the recipient's signature. This evidence is attached to the application or complaint.

The court ruling and the appeal against it: Based on the results of the consideration of applications and complaints, the court issues a ruling. A ruling is a judicial act on the merits that determines the rights and obligations of the participants in the procedure. The choice of the precise form of a ruling is not accidental, since, within the framework of insolvency procedures, certain questions may be resolved before the adoption of the final decision in the case as a whole.

This ruling may be appealed against in the manner and within the time limits established by law. This provision emphasizes that the ruling is not final and is not subject to unconditional enforcement without the possibility of review: the parties that do not agree with it are entitled to appeal against it before a higher instance. The procedure and time limits for filing an appeal are governed by the general provisions of the procedural legislation.

2. Part two of this Article provides that two types of disputes of a special category are considered in the manner established by part one. The first category is disagreements between the judicial manager and the representative of the debtor's employees arising in respect of the amount and composition of claims connected with the payment of wages and severance pay upon dismissal.

To understand the significance of this provision, it is necessary to take into account the legal status of employees in insolvency procedures. The debtor's employees need special protection for two reasons. First, their claims for the payment of wages and severance pay are among the priority claims and are subject to satisfaction after the out-of-turn payments, while for most employees these payments are the sole source of income. Second, employees often do not possess sufficient legal knowledge and capabilities to independently protect their interests.

An important role in the resolution of such labor disputes is played by the "representative of the debtor's employees." This representative is elected at the general meeting of the employees and is vested with the authority to conduct negotiations with the judicial manager, to apply to the court and to protect the rights

and legitimate interests of the employees. The law thereby provides for the employees a mechanism for the collective protection of their rights through a representative, rather than by means of each employee filing separate submissions.

In practice, the principal subjects of disagreement between the judicial manager and the representative of the employees are: the determination of the exact amount of the wage indebtedness, especially where the accounting documentation has not been preserved in full or was maintained improperly; the procedure for calculating severance pay, in particular with respect to employees with long length of service; the question of including bonuses, allowances and other payments in the composition of the indebtedness. The consideration of such disputes in the manner provided for in this Article enables employees to obtain judicial protection in a more expeditious and less costly manner.

The second category of disputes provided for in this provision is complaints of creditors, of the representatives of the founders (participants) of the debtor or of the representatives of the owner of the debtor's property against the actions (or omissions) of the judicial manager.

The concepts of "actions" and "omissions" have a very broad meaning. Complaints against actions, for example, may include such cases as the sale of property at a price below the market price, the granting of advantages to particular creditors, the improper storage of documents, the performance of certain operations without the corresponding permission, and the like. Complaints against omissions concern situations where the bankruptcy manager does not take the necessary measures within the established time limits, for example, does not hold a meeting of creditors, does not conduct an inventory of the property, or does not submit a report.

The grant of the right to file complaints to the founders (participants) or the owner of the property deserves special attention. From the moment of the commencement of the insolvency procedure, the management of the debtor passes to the bankruptcy manager; however, the founders and the owner of the property are not deprived of the right to protect their interests. This provision affords them the right to judicial control.

3. Part three of this Article establishes the grounds for the return of applications and complaints. The Law provides for three such grounds.

The first ground—the filing of a submission by an unauthorized person. Applications and complaints filed by persons not entitled to appeal against the court ruling are subject to return. This provision clearly defines procedural participation: not everyone may appeal against any court ruling. The right to appeal against a determination of the court is granted only to those persons who are specified in the application or complaint as the interested party.

The second ground—the violation of the established procedure for filing the submission. Applications and complaints filed in violation of the requirements provided for in parts one and two of this article are subject to return. For example, if evidence of the sending of copies thereof to the other participants in the consideration

is not attached to the application, the court is entitled to return such a submission without considering it on the merits. This provision is aimed at ensuring procedural discipline and preventing an unjustified burden on the court.

The third ground—the absence of supporting evidence. Applications and complaints to which the documents and other evidence confirming the circumstances set out therein are not attached are also subject to return. The Law requires the applicant not merely to assert the violation of its rights, but to submit materials confirming its arguments.

Procedural consequences of the return of an application or complaint. The return of a submission does not mean its rejection on the merits and does not signify a recognition of the claims as unfounded. As a rule, the court indicates the reasons for the return in its ruling and affords the applicant the opportunity to remedy the identified deficiencies. After they are remedied, the application or complaint may be filed again. Therefore, it is extremely important for the applicant to properly prepare the submission from the outset: to attach all the necessary documents and evidence, as well as confirmations of the sending of copies to the other participants in the process. This makes it possible to avoid the loss of time and additional procedural delays. It should also be borne in mind that the return of an application or complaint does not preserve the previously commenced period for their consideration. If, after the deficiencies are remedied, the submission is filed again, the fifteen-day period for consideration begins to be calculated anew—from the day the corrected application or complaint is received by the court.

See also: International Commentary, p. 740.

Article 61. Proceedings for the Review of Court Rulings Issued Based on the Results of the Consideration of Disagreements in an Insolvency Case

A court ruling issued based on the results of the consideration of applications, complaints (motions) and disagreements in an insolvency case shall be subject to review in the manner established by the Economic Procedural Code of the Republic of Uzbekistan, with the particularities provided for in this article.

A court ruling issued based on the results of the consideration of disagreements in an insolvency case shall enter into legal force upon the expiry of ten days from the moment of its issuance.

The right to file an appellate complaint shall be held by the persons that participated in the consideration of the disagreements in the insolvency case.

An appellate complaint against a court ruling specified in part one of this Article shall be filed within ten days from the moment the court issues the ruling based on the results of the consideration of the disagreements and shall be subject to consideration within ten days from the moment of its receipt by the court.

A cassation complaint against a court ruling specified in part one of this article that has not been considered by way of appellate review shall be filed within one month from the day of its entry into legal force and shall be subject to consideration within ten days from the moment of its receipt by the court.

This article establishes the rules for the review of court rulings issued based on the results of the consideration of applications, complaints and disagreements in an insolvency case, the time limits for the entry of such rulings into legal force, as well as the procedure for appealing against them by way of appellate or cassation review.

1. Under part one of this article, court rulings issued based on the results of the consideration of applications, complaints (motions) and disagreements in an insolvency case may be reviewed in the manner established by the Economic Procedural Code (EPC), with regard to the particularities provided for in this article.

Complaints against court rulings issued within the framework of an insolvency case that are not provided for by the EPC may be filed only in the cases and in the manner expressly established by the Law. An exception is constituted by the rulings provided for in Article 51, part two of Article 108 and part four of Article 140 of the Law, which are appealed against in the manner established by the EPC.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On Certain Issues of the Application by the Economic Courts of the Provisions of the Law of the Republic of Uzbekistan 'On Insolvency'"

27. Judicial acts in insolvency cases may be reviewed in the manner established by the EPC, with regard to the particularities provided for by the Law.

Rulings issued by the court within the framework of an insolvency case that are not provided for by the EPC may be appealed against (protested) only in the cases and in the manner established by the Law, with the exception of the rulings provided for in Article 51, part two of Article 95, part two of Article 108 and part four of Article 140 of the Law, which may be appealed against (protested) in the manner provided for by the EPC.

In particular, the court rulings issued based on the results of the consideration of the applications and complaints specified in Article 60 of the Law may be appealed against (protested) in the manner and within the time limits established by the Law. An appellate complaint (protest) against the said court rulings shall be filed within ten days from the moment of their issuance; a cassation complaint against a court ruling that has not been considered by way of appellate review shall be filed within one month from the day of its entry into legal force (Article 61 of the Law).

In particular, rulings on the appointment of bankruptcy managers (with the exception of the temporary manager), as well as on their release or replacement, are appealed against (a protest is filed) in the manner provided for by the Law. If the rehabilitation manager or the external manager is appointed simultaneously with the

introduction of rehabilitation or external management, and the bankruptcy manager—simultaneously with the adoption of the decision declaring the debtor bankrupt and the opening of liquidation proceedings, and their appointment is indicated in the ruling on the introduction of rehabilitation or external management or in the decision declaring the debtor bankrupt, then, in the event of disagreement with the candidate of the appointed manager, the persons participating in the insolvency case are entitled to appeal, in the manner established by the Law, against the part of the judicial act concerning the appointment of the judicial manager.

Since the law does not provide for an appeal against the ruling on the introduction of the observation procedure (Article 78 of the Law) and the appointment of a temporary manager (Article 82 of the Law), the ruling on the appointment, release from duties or replacement of the temporary manager is not subject to appeal (protest).

In addition, a court ruling declaring a decision of the meeting of creditors invalid (Article 17 of the Law) may be appealed against in the manner provided for by the Law on Insolvency.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On Certain Issues of the Application by the Economic Courts of the Provisions of the Law of the Republic of Uzbekistan 'On Insolvency'"

27. A court ruling declaring a decision of the meeting of creditors invalid may be appealed against (protested) in the same manner (part five of Article 17 of the Law).

A complete list of the court rulings and the procedure for appealing against them is set out in the concluding part of this article.

2. Under this provision, rulings adopted based on the results of the consideration of disputes in an insolvency case enter into legal force upon the expiry of ten days from the day of their issuance, whereas, under the general rules provided for by the procedural legislation, judicial acts enter into legal force upon the expiry of one month after their adoption (Article 199 of the EPC). For the purpose of shortening the time limits for the consideration of insolvency cases and ensuring the timely satisfaction of creditors' claims, the Law establishes a shorter time limit for the entry into legal force of judicial acts adopted based on the results of the consideration of disputes within the framework of an insolvency case, as compared with the judicial acts provided for by the EPC.

3. As noted in part three of this provision, the right to file an appellate complaint against a court ruling issued based on the results of the consideration of a dispute in an insolvency case belongs only to those persons that participated in the consideration of that specific dispute within the framework of the insolvency case. For example, under a ruling issued based on the results of the consideration of the

bankruptcy manager's objections to creditors' claims, such persons are the bankruptcy manager and the creditor. In turn, under a ruling issued based on the results of the consideration of a dispute between the bankruptcy manager and the representative of the debtor's founders, the corresponding persons are the bankruptcy manager and the representative of the founders. Unlike the provisions of the EPC (Article 259 of the EPC), which provide for the right of all persons participating in the case to appeal against judicial acts, the Law grants such a right only to the participants in the specific dispute being considered. This is due, first, to the fact that the question considered within the framework of a separate dispute in an insolvency case does not always affect the interests of all participants in the case, and therefore it is sufficient to grant the right of appeal only to those persons that directly participated in this dispute. Second, if the right of appeal were granted to all participants in the insolvency case, the other participants would be unable to appeal against the judicial act issued in this dispute, which would in fact restrict their rights.

It should be noted that the persons who participated in the consideration of this disagreement in the insolvency case are not entitled to apply with an appeal directly to the court of cassation instance. Such an appeal is filed by them with the appellate instance.

At the same time, it is necessary to take into account that the appeal against a court ruling does not preclude the further consideration of the insolvency case and does not constitute a ground for the suspension of the proceedings in the case. The filing of an appeal against a ruling also does not preclude the holding of the meeting of creditors and the carrying out of measures aimed at restoring the debtor's solvency.

4. Proceedings in the court of appellate instance are carried out in the manner established by Chapter 34 of the EPC. However, as provided for in this article, an appellate complaint against the rulings specified in Article 60 of the Law may be filed within ten days from the day the ruling is issued and must be considered within ten days from the day of its receipt by the court. Under the provisions of the EPC, a court decision enters into legal force upon the expiry of one month from the day of its adoption (Article 192 of the EPC). An appellate complaint (protest) is filed within one month after the adoption of the court decision (Article 262 of the EPC), and its consideration is carried out within a one-month period from the day the appeal is received by the court (Article 277 of the EPC). Unlike the general rules of the EPC, the Law establishes shortened time limits both for the filing of an appellate complaint against rulings issued based on the results of the consideration of disagreements in an insolvency case and for their consideration by the court of appellate instance. This approach is aimed at accelerating insolvency procedures and creating conditions for the timely satisfaction of creditors' claims.

5. As provided for in part five of this article, a cassation complaint against a court ruling specified in part one of this article and not considered by way of appellate review is filed within one month from the day of the entry of the ruling into legal

force and is subject to consideration within ten days from the moment of its receipt by the court. Such a rule affords the possibility of filing a cassation complaint to persons that did not have the opportunity to apply with an appellate complaint in the insolvency case or missed the established time limit. The list of court rulings and the procedure for appealing against them are established by this article.

I. Rulings the appeal against which is not provided for by law and which are not subject to appeal:

on the approval of remuneration for the judicial manager (part one of Article 26 of the Law);

on the initiation of an insolvency case (part four of Article 46 of the Law);

on the introduction of the observation procedure and the appointment of a temporary manager (part three of Article 46 of the Law);

on the appointment of an expert examination (part seven of Article 49 of the Law);

on the appointment of a temporary manager, as well as on the establishment of the amount and procedure for the payment of remuneration to it (Article 82 of the Law);

on the modification of the amount of the temporary manager's remuneration (Article 82 of the Law);

on the release of the temporary manager from the performance of its duties (Article 82 of the Law);

on the removal of the manager of the debtor from the performance of its duties during the period of observation (the sixth paragraph of part one of Article 83 of the Law);

on the introduction of changes to the debt repayment schedule in respect of the claims included in the register of creditors' claims (Article 101 of the Law);

on the termination or conclusion of the judicial rehabilitation procedure (part one of Article 105 of the Law);

on the extension of the term of the external management procedure (Article 124 of the Law);

on the conservation of the non-operational facilities of a debtor in whose charter fund (charter capital) there is a state share (part three of Article 125 of the Law);

on the transition to settlements with creditors, on the commencement of settlements with creditors of a particular rank of priority, as well as on the refusal to approve the external manager's report (Article 134 of the Law);

on the approval of the procedure and time limits (schedule) for the sale of property by the court (part three of Article 151 of the Law);

on the conclusion of the liquidation proceedings (part one of Article 160 of the Law);

on the approval of the debt repayment plan of an individual entrepreneur or on the introduction of changes to such a plan (Article 229 of the Law);

on the cancellation of the simplified insolvency procedure and the transition to the general insolvency procedures (part five of Article 245 of the Law).

II. Rulings the possibility of appealing against which is provided for by the Economic Procedural Code (EPC), as well as the judicial acts provided for in part one of Article 51, part two of Article 108 and part four of Article 140 of the Law, which may be reviewed in the general procedure established by the EPC:

on the refusal to admit the application (part five of Article 46 of the Law);
on the return of the application (part six of Article 46 of the Law);
on the taking of measures to secure creditors' claims (part five of Article 47 of the Law);
on the results of the consideration of objections to creditors' claims (Article 49 of the Law);
on the suspension of the consideration of the question of imposing subsidiary liability until all the necessary evidence is established and the settlements with creditors are concluded (Article 73 of the Law);
on the introduction of the judicial rehabilitation procedure (Article 95 of the Law);
on the removal of the manager of the debtor from the performance of its duties (Article 96 of the Law);
on the release of the rehabilitation manager from the performance of its duties with the simultaneous appointment of a new rehabilitation manager (Article 97 of the Law);
on the introduction of the external management procedure (Article 108 of the Law);
on the appointment of an external manager (Article 112 of the Law);
on the release of the external manager from the performance of its duties (Article 113 of the Law);
on the results of the consideration of creditors' objections (Article 117 of the Law);
on the extension of the term of the liquidation proceedings procedure (Article 140 of the Law);
on the release of the liquidation manager from the performance of its duties (Article 156 of the Law);
on the court's refusal to approve a settlement agreement (Article 167 of the Law);
on the resumption of the proceedings in the insolvency case (Article 170 of the Law);
on the court's consideration of the debt restructuring plan of a natural person (Article 211 of the Law);
on the approval or the refusal to approve changes to the debt restructuring plan of a natural person, if such changes are approved by the meeting of creditors (Article 214 of the Law);
on the extension of the time limit for the performance of the debt restructuring plan of a natural person (Article 214 of the Law);
on the approval or the refusal to approve the changes introduced into the debt restructuring plan of a natural person (Article 215 of the Law);

on the exclusion of property from the liquidation estate (Article 219 of the Law);

on the approval of the procedure, conditions and time limits for the sale of the property of a natural person, as well as on the establishment of the initial price of its sale (Article 220 of the Law);

on the resumption of the proceedings in the insolvency case of a natural person (Article 223 of the Law);

on the approval of the list of the property of the individual entrepreneur debtorthat is not included in the liquidation estate (Article 230 of the Law).

Article 62. Particularities of the Proceedings in Insolvency Cases of a Debtor in Whose Charter Fund (Charter Capital) There Is a State Share

In the event that there is a state share in the charter fund (charter capital) of the debtor, the court shall notify the authorized state body of the initiation of the insolvency case.

The authorized state body shall, within a two-week period from the day of receipt of the notice of the initiation of the insolvency case, communicate to the court its position on the expediency or inexpediency of conducting pre-trial rehabilitation.

In the event of the creditors' consent to the conduct of pre-trial rehabilitation, the proceedings in the insolvency case shall be subject to termination.

In the event of the creditors' disagreement with the conduct of pre-trial rehabilitation, the trial of the insolvency case shall be carried out in the manner established by this Law.

This article establishes the particularities of the consideration of an insolvency (bankruptcy) case against a debtor in whose charter fund (charter capital) there is a state share, in particular: the notification of the authorized state body, the consideration of the question of pre-trial rehabilitation, as well as the procedure for the termination or continuation of the proceedings in the case depending on the consent of the creditors.

1. If there is a state share in the charter fund (charter capital) of the debtor, the court is obliged to notify the authorized state body of the initiation of the insolvency case. Under Article 153 of the EPC, the court ruling initiating the case must be sent to the parties and the state body simultaneously within five days.

2. The authorized state body shall, within two weeks from the day of receipt of the notice of the initiation of the insolvency case, communicate to the court its decision on the expediency or inexpediency of conducting pre-trial rehabilitation. At the same time, the decision of the authorized state body on the expediency of conducting pre-trial rehabilitation does not, in itself, mean the automatic termination of the proceedings in the insolvency case.

3. In accordance with the meaning of part three of this article, the decision of the

authorized state body on the expediency of conducting pre-trial rehabilitation is subject to consideration at the meeting of creditors convened by the temporary manager. In practice, this means that, where there is such a decision of the body, the question must be submitted for consideration to the first meeting of creditors during the period of observation. If the first meeting of creditors gives its consent to the conduct of pre-trial rehabilitation, then, in accordance with part three of the article, the proceedings in the insolvency case are terminated by the court.

4. Under this provision, if the creditors do not give their consent to the proposal to conduct pre-trial rehabilitation in respect of the debtor, the proceedings in the insolvency case are continued by the court under the general rules. For example, even if the authorized state body considers that the financial position of the enterprise may be restored by means of pre-trial rehabilitation, but the creditors object, the court does not terminate the case and continues its consideration in the manner established by law. This approach ensures that the interests of the creditors are taken into account, that their will is respected and that the insolvency procedures are carried out lawfully.

See also: International Commentary, p. 740.

CHAPTER 6. INVALIDITY OF TRANSACTIONS

Article 63. Invalidity of Transactions Concluded by the Debtor

Any transaction concluded by the debtor, including before the commencement of an insolvency case or the introduction of external management or judicial rehabilitation procedures, may be declared invalid by the court upon the application of the judicial manager on the grounds provided for by law.

Transactions shall be declared invalid on the grounds specified in Articles 115–126 of the Civil Code of the Republic of Uzbekistan and provided for by this Law if they were concluded by the debtor or the debtor's representative within three years before the commencement of the insolvency case, unless otherwise provided by this Law.

Transactions concluded before the commencement of an insolvency case may, in addition to the grounds provided for in part two of this Article, be declared invalid:

transactions at a low value concluded by the debtor, including transactions concluded by exchanging the debtor's goods for similar goods or by gift;

a transaction whose price and/or other terms substantially worsen the debtor's position in comparison with a transaction concluded in a similar manner, and where such transaction has resulted in financial losses;

a transaction for the transfer of property on a gratuitous or paid basis (including for temporary use) at a price differing from the price for similar or identical property and substantially worsening the debtor's condition, even if the interests of creditors are not thereby infringed upon;

a transaction leading to the preferential satisfaction of the claims of one creditor over others;

gift agreements concerning the debtor's property, except for those concluded in ongoing commercial operations, if they substantially differ from agreements concluded during the year before the commencement of the insolvency case.

A transaction concluded by the debtor that is—a legal person after the commencement of an insolvency case or within the thirty-six months preceding the filing of the application to commence an insolvency case, relating to the payment (allocation) of a share in property to a participant of the debtor in connection with the participant's withdrawal from the composition of the debtor, may, upon the application of the judicial manager or a creditor, be declared invalid by the court and the consequences of the invalidity of the transaction applied, and all property (funds) received under such transaction shall be returned to the debtor. In this case, the participant shall be recognized as a fourth-priority creditor in accordance with Article 150 of this Law.

The commented article establishes the mechanism for the judicial recognition as invalid of transactions concluded by the debtor before the commencement of an insolvency case or in the course of the relevant procedure on grounds related to causing harm to the interests of creditors, the alienation of assets at an undervalue or

the granting of preferences to particular creditors, upon the application of the judicial manager or creditors, as well as for the return of the property received to the debtor.

1. Part one of this article establishes the right of the judicial manager to apply to the court with a demand to declare invalid any transaction concluded by the debtor. Under this provision, the judicial manager may challenge transactions concluded both before and after the commencement of an insolvency case. Such a transaction may be challenged regardless of whether it was concluded before the commencement of the insolvency case or before the introduction of external management or judicial rehabilitation procedures. In addition, transactions concluded by the debtor during the period of observation or judicial rehabilitation without the relevant consent of the interim or rehabilitation manager (part two of Article 81 and part seven of Article 98 of the Law) may also be declared invalid upon the demand of the judicial manager. The purpose of granting the judicial manager this right is to return property or its value unlawfully alienated by the debtor in violation of the requirements of law.

This part of the article establishes the right of the judicial manager to apply to the court with a statement of claim to declare a transaction invalid. However, where a transaction is invalid by its very nature, the judicial manager is entitled to apply to the court not with a demand to declare it invalid but with a demand to apply the consequences of its invalidity.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On Certain Issues of the Application by Economic Courts of the Provisions of the Law of the Republic of Uzbekistan 'On Insolvency'"

32. Statements of claim to declare invalid the transactions concluded by the debtor shall be considered outside the framework of the insolvency case, in compliance with the general rules of jurisdiction and venue established by procedural law.

2. Part two of this article establishes the period within which the judicial manager is entitled to apply to the court, and this period corresponds to the general limitation period and amounts to three years (36 months). The three-year period is tied to the moment of commencement of the insolvency case, and its calculation is recokned precisely from that time. However, the period specified in the Law is not a limitation period.

A transaction concluded by a debtor that is a legal person within thirty-six months before the commencement of an insolvency case or after the filing of the application to commence an insolvency case, relating to the payment (allocation) of a share of property to a participant of the debtor in connection with the participant's withdrawal from membership, may also be declared invalid by the court. In addition, the Law provides for the possibility of challenging major transactions as well as interested-

party transactions concluded without the consent of the judicial manager, the meeting of creditors or the committee of creditors.

In this case, the assessment of a transaction concluded by the debtor as a "major transaction" may differ depending on the organizational and legal form of the business entity and its constituent documents. For example, under part one of Article 83 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of Shareholders' Rights," a transaction for the acquisition or alienation of property, or a transaction relating to the possibility of alienating property (including a loan, credit, pledge or surety), or several interrelated transactions shall be recognized as a major transaction if the book value of the property being alienated or acquired exceeds fifteen percent of the amount of the company's net assets as of the date of the decision to enter into such transactions, except for transactions concluded in the ordinary course of business as well as transactions relating to the placement of shares and other securities. Part one of Article 44 of the Law of the Republic of Uzbekistan "On Limited Liability Companies" establishes that, unless the company's charter provides otherwise, a transaction or several interrelated transactions relating to the acquisition, alienation or possibility of alienation of the company's property worth more than twenty-five percent of the value of the company's property, determined according to the accounting records for the last reporting period preceding the date of the decision to enter into the transaction, shall be recognized as a major transaction.

If one of the parties that concluded the transaction is an interested party in relation to the debtor, the manager or a creditor, such transactions shall be recognized as interested-party transactions.

The grounds for declaring a transaction invalid may be divided conditionally into two groups. The first group—general grounds, which include Articles 115–126 of the CC. The said provisions of the CC also serve as a ground for declaring a transaction invalid in the course of insolvency proceedings.

The second group consists of special grounds, which serve as a ground for declaring invalid transactions (or a transaction) concluded by the manager or representative of the debtor only where an insolvency case has been commenced against the debtor. For example, such grounds include the provisions of Articles 63–66, part two of Article 120, part seven of Article 140, Article 169, part five of Article 219 and part one of Article 231 of the Law. A statement of claim by the manager to declare a transaction invalid on general grounds shall be accepted by the court for consideration regardless of the expiry of the limitation period (Article 153 of the CC). Therefore, if at the stage of accepting the statement of claim for proceedings and preparing the case for trial it is established that the limitation period has expired with respect to the asserted claim, this shall not constitute a ground for refusing to accept the statement of claim or for returning it. The application of the rules on limitation periods and the relevant provisions of law shall be carried out in the general manner.

3. Part three of this article provides that certain circumstances revealed by the manager in the course of examining transactions concluded before the commencement of the debtor's insolvency case may also serve as a ground for declaring such transactions invalid. At the same time, such special grounds for declaring a transaction invalid may be cited as a ground in the statement of claim only in cases where an insolvency case has been commenced against the debtor.

3.1. Transactions at an undervalue concluded by the debtor, including transactions concluded by exchanging the debtor's goods for goods of the same kind or by means of gift.

As a rule, property is sold at market value based on supply and demand. A transaction at an undervalue concluded by the debtor means a transaction whose price is below the actual or market value and which, as a result, brings no benefit to the company. The fact that property was sold at an undervalue is determined on the basis of the opinion of valuation organizations and/or in accordance with the rules established by the National Accounting Standards. In particular, under Article 7 of the Law of the Republic of Uzbekistan "On Valuation Activity," the market value of a valuation object means the most probable price at which that object may be alienated on the open market under competitive conditions, where the parties to the transaction act reasonably and voluntarily, possessing all necessary information, and where the price of the transaction is not affected by extraordinary circumstances, including an obligation of one of the parties to enter into that transaction. In the cases provided for by this Law, value may also be determined by comparison with prices (tariffs, rates and the like) established or regulated by the relevant authorized bodies.

Likewise, transactions concluded by the debtor by exchanging the debtor's goods for goods of the same kind or by means of gift also serve as a ground for the court to declare such transactions invalid. This is because, as a rule, the methods of "exchange" and "gift" are used for the unlawful alienation of the debtor's property in favor of other persons (most often persons close to the debtor) or to conceal the debtor's financial position. In turn, the alienation of property by a subject of civil-law relations in a financially distressed position, by exchange without receiving any benefit or by gratuitous transfer to other persons, does not conform to the principles of good faith, reasonableness and fairness that are fundamental to the exercise of civil rights.

3.2. The price of the transaction and/or its other terms, where, upon comparison with a similar concluded transaction, they substantially worsen the debtor's position, provided that such transaction has entailed financial losses.

Legislation provides a mechanism for clarifying and assessing certain circumstances by comparing transactions. For example, Article 356 of the CC establishes that, in cases where the price is not provided for in a compensated contract and cannot be determined on the basis of the terms of the contract, performance of the contract shall be paid for at the price that, under comparable circumstances, is usually charged for such goods, works or services. If the price and/or other terms of

a transaction concluded by the debtor, upon comparison with a similar transaction, substantially worsen the debtor's position and lead to financial losses, this may serve as a ground for declaring such transaction invalid.

A contract must be fair and take into account the interests of the parties. For example, if the debtor under a supply contract acquires goods at prices significantly above the usual market prices, or sets excessively high rates for late payment compared with standard ones, the debtor incurs financial losses. If, however, the debtor alienates its property at a price below the market price or sets non-standard payment terms—for example, payment one to two years after receipt of the goods—and this substantially worsens the debtor's financial position, such transaction may be declared invalid. Similar rules also exist in the countries of the Anglo-American legal system, where "fairness" and "equality" are regarded as important principles of contract. If the interests of one party infringe the rights of another, under Article 123 of the CC such a contract may be recognized as an unconscionable contract. In other words, if the terms of a contract are aimed exclusively at protecting the interests of one party and create excessive financial or legal risks for the other party, such a contract may be declared invalid.

Depending on the presence of counter-performance, contracts are divided into compensated and gratuitous. If the performance of one party under the contract presupposes counter-performance by the other party, such a contract is considered compensated (for example, supply of goods, work contract and the like). Counter-performance is not necessarily expressed in monetary form: it may be of any kind—in particular, in the form of other property of equal value in place of homogeneous property, property rights, rights in rem, as well as in the form of compensation for the performance of works or the provision of services. In gratuitous contracts, one party transfers to the other party some property without requiring counter-performance (for example, gift, gratuitous provision for temporary use and the like).

3.3. A transaction for the transfer of property, whether on a gratuitous or a compensated basis (including for temporary use), at a price differing from the value of similar or identical property and at the same time substantially worsening the debtor's position, even if it does not cause harm to the interests of creditors.

A transaction under which the debtor's property is alienated at a price that, when compared with similar or identical property, substantially worsens the debtor's position constitutes a ground for declaring such transaction invalid. In this case, what matters is not so much the magnitude of the price as the effect of such transaction on the debtor's financial condition. If, as a result of the transaction, the debtor's economic or financial position substantially worsens, such price may be recognized as "substantially worsening." The expression "differing from the price of similar or identical property" means a price below the market value of the property, while a "price substantially worsening the debtor's position" means a price set in the transaction that reduces the debtor's ability to discharge its obligations.

In addition, when comparing transactions, the time of their conclusion must also be taken into account. Transactions concluded at the same time or in close periods should be compared. In any event, the court shall establish the effect of the transaction on the debtor's financial position, that is, the fact of its substantial worsening.

In turn, the gratuitous transfer of property is also considered a suspicious transaction and may serve as a ground for declaring a transaction invalid within insolvency proceedings. In such cases, it is immaterial whether or not harm was caused to the interests of creditors when such transaction is challenged.

3.4. The transaction leads to the preferential satisfaction of the claims of one creditor in comparison with the claims of other creditors.

Civil-law relations, including procedures in insolvency cases, provide for payments to creditors of the same priority on equal terms. If the debtor, in conditions of insolvency and having several creditors, makes payments in favor of particular creditors by granting them preferences or performs certain obligations in their favor, such payments (actions) may be recognized as suspicious transactions. Such transactions are also often accompanied by an abuse of authority on the part of the debtor's officials. In the academic literature, such transactions are called "preferential transactions," and where signs of them are revealed within an insolvency case, they may serve as a ground for declaring a transaction invalid on the basis of this provision. The preferential satisfaction of the claims of one creditor leads to an unfair distribution of the debtor's assets, which infringes the interests of other creditors and causes them harm. At the same time, under Article 9 of the CC, participants in civil-law relations must exercise their rights in good faith, reasonably and fairly. As a result of declaring the transaction invalid, the relevant property or, where its return is impossible, funds shall be returned to the debtor, included in the liquidation estate and distributed among all creditors on an equal basis.

3.5. Gift agreements concerning the debtor's property, except for agreements concluded in the ordinary course of commercial operations, if they substantially differ from transactions concluded during the year before the commencement of the insolvency case.

This provision is used for the legal analysis of gifts and similar actions performed by the debtor while insolvent or in a period close to the onset of insolvency. A gift is an action consisting in the gratuitous transfer by a person of the person's property to another person. As a rule, it is carried out on the basis of personal relations.

However, if such agreements are concluded by entrepreneurial entities and signs of insolvency are subsequently revealed, such an agreement may be recognized as suspicious. The Law provides for assessing the validity of a gift agreement by comparing it with transactions concluded during the year before the commencement of the insolvency case against the debtor. If the transaction substantially differs from the debtor's commercial practice, it may be declared invalid by the court.

However, agreements concluded in the ordinary course of commercial activity may not be declared invalid on the basis of this provision. Ordinary commercial activity means agreements (actions) carried out within the debtor's ordinary business activity and performed on a systematic basis. These include, for example, marketing, bonus programs, advertising and the like.

4. Under part four of this article, a participant of a company has the right to withdraw from the company at any time in the manner provided for by law and the company's constituent documents, regardless of the consent of the other participants. The exercise of this basic right grants the participant an additional right—to demand payment of the actual value of its own share.

The share of a participant who has been expelled from the company or has withdrawn from it shall pass to the company. The company is thereupon obliged to pay such participant the actual value of the participant's share, determined on the basis of the company's accounting records for the last reporting period preceding the date of expulsion or withdrawal, or, with the participant's consent, to transfer to the participant property of the same value in kind.

However, where an insolvency case is commenced against the company, the satisfaction of participants' claims for the allocation to them of a share from the company's property in connection with their withdrawal from membership is prohibited. The restriction of a subjective right is connected with the need to ensure and protect the rights and legitimate interests of other subjects of legal relations. A restriction of a right means the legal narrowing of the possibilities for a person to exercise rights in certain cases while the right itself is formally preserved. For example, under Article 26 of the Law of the Republic of Uzbekistan "On Limited Liability Companies," if at the time of payment the company meets the criteria of insolvency under the law, or if such criteria arise for the company as a result of the payment, the company is not entitled to pay profit to its participants, even if a decision on its distribution among the participants has been adopted.

A participant who has voluntarily withdrawn from the company or has been expelled from it by a court decision is unable to receive or have allocated the value of the participant's share. It should be borne in mind that it is immaterial whether the withdrawing participant took part in adopting the decision that led to the company's insolvency, or whether the signs of insolvency arose only after the participant's withdrawal from the company. Where the transaction is declared invalid, all property (funds) received under such transaction shall be returned to the debtor. In such case the participant shall be recognized as a fourth-priority creditor in accordance with Article 150 of this Law.

Article 64. Invalidity of Transactions Causing Losses to Creditors

A transaction concluded by the debtor with an interested party or another business entity may be declared invalid by the court upon the application of the judicial manager if, as a result of the performance of such transaction, losses have been or may be caused to the debtor and/or creditors.

The commented article enshrines a ground under which transactions whose conclusion has caused or may cause harm to the debtor and/or creditors may be declared invalid by the court.

This provision is one of the special grounds for declaring a transaction invalid in the insolvency process and affords the possibility of challenging transactions that cause harm or create a risk of causing it. The purpose of the provision is to protect the interests of the debtor and creditors as well as to prevent the unjustified alienation of the debtor's assets in the event of its insolvency. The party to the transaction may be, on the one side, the debtor and, on the other, an interested party or any other business entity.

"Interested parties" means the owners of a legal person, its participants, shareholders, managers or persons exercising control over it, as well as business entities connected with the debtor and affiliated persons. The legal status of persons interested in concluding a transaction is determined by the relevant laws. Such persons in the context of concluding transactions are provided for, in particular, by Article 43 of the Law of the Republic of Uzbekistan "On Limited Liability Companies" and Article 85 of the Law "On Joint-Stock Companies and the Protection of Shareholders' Rights." For example, under Article 85 of the Law "On Joint-Stock Companies and the Protection of Shareholders' Rights," persons interested in concluding a transaction with the company are recognized as affiliated persons in relation to that company.

The following are recognized as affiliated persons of a company:

1) a legal person owning twenty or more percent of the shares of the company;

2) a physical person owning twenty or more percent of the shares of the company together with the physical person's close relatives;

3) a person exercising the powers of a member of the company's supervisory board, the company's director or a member of the company's management board;

4) a legal person in whose charter fund (charter capital) the company owns twenty or more percent;

5) a legal person that is a subsidiary business company of the company or a subsidiary business company of the company to which the company is a subsidiary;

6) a legal person in whose charter fund (charter capital) twenty or more percent is owned by the same person who owns twenty or more percent of the charter fund (charter capital) of the company;

7) a legal person whose supervisory board consists, by at least one third, of the same persons and their close relatives;

8) a legal person whose manager of the executive body is the same person who is the director or a member of the management board of the company, or that person's close relatives;

9) a legal person whose manager or executive body is managed by a person if that person, together with the person's close relatives, constitutes at least one third of the supervisory board of the company;

10) a legal person whose supervisory board consists, by at least one third, of persons exercising the powers of director or member of the management board of the company, as well as their close relatives;

11) a legal person belonging to the same business association (amalgamation) as the company.

The following are recognized as affiliated persons of a shareholder that is a physical person who is an affiliated person of the company:

1) a legal person in whose charter fund (charter capital) that physical person and/or the physical person's close relatives own twenty or more percent;

2) a legal person of whose supervisory board that shareholder or the shareholder's close relatives are members;

3) a legal person in which that shareholder or the shareholder's close relatives exercise the powers of a member of the executive body.

The provisions of paragraphs 1, 2, 4 and 6 of part two and paragraph 1 of part three of this article shall also apply to persons acting as a trustee or representative of a shareholder.

Business entities means legal persons, regardless of the form of ownership, engaged in the production and sale of goods (works, services), their exchange, as well as other types of commercial activity, as well as non-commercial organizations registered in accordance with law.

When bringing a claim to declare a transaction invalid on this ground, the judicial manager must prove in court the existence of a causal connection between the transaction concluded by the debtor and the harm caused. To declare a transaction invalid as a transaction causing harm to the debtor and/or creditors, the following circumstances must be established: the transaction was concluded for the purpose of causing harm to the property rights of creditors; the transaction led to harm to the property rights of creditors; the other party to the transaction knew or should have known of the debtor's intent at the time of its conclusion.

Article 65. Invalidity of the Debtor's Transactions Relating to the Preferential Satisfaction of the Claims of Some Creditors over Others

A transaction concluded by the debtor with respect to a particular creditor or another person after the acceptance of the application to commence an insolvency case against the debtor may be declared invalid by the court if such transaction entails the preferential satisfaction of claims under the debtor's monetary obligations of some creditors over others, upon the application of the judicial manager or a creditor where one of the following conditions is present:

the transaction is aimed at securing the performance of an obligation of the debtor or a third party to a particular creditor prior to the performance of the transaction;

the transaction has led or may lead to a change in the priority of satisfaction of creditors' claims under obligations that arose before the conclusion of the transaction;

the transaction has led or may lead to the satisfaction of the claims of some creditors whose performance was not yet due at the time of the conclusion of the transaction, where there are obligations to other creditors that were not performed within the established time;

where a particular creditor has been or may be granted greater advantages with respect to the satisfaction of claims, and this leads to a breach of the order of priority of settlement with creditors provided for by this Law.

The commented article establishes special grounds for declaring invalid transactions concluded by the debtor after the commencement of an insolvency case.

The commencement of an insolvency case is the process of applying to the court in connection with the debtor's inability to perform its property obligations. After the commencement of such a case, the debtor's financial position and the legal relations among creditors are subject to regulation in accordance with the requirements of the law. Where the debtor's financial condition worsens, the law requires that the debtor not grant a preference to one creditor over others and not derive a benefit from doing so. Where signs of insolvency are revealed, the debtor's property and assets are subject to orderly distribution among creditors. Granting a preference to particular creditors contradicts the principles of good faith, reasonableness and fairness enshrined in civil law.

In particular, Article 13 of the Law establishes that, in the course of insolvency proceedings, creditors of the same type are divided into five groups, and the priority of satisfaction of their claims is determined. On this basis, if payments received from the debtor or transactions concluded lead to the granting of advantages to particular creditors compared with others or to a change in their property interests, such transactions or payments are subject to verification and assessment as to their validity. As a rule, such actions are carried out by the judicial manager. If, in the course of insolvency proceedings, it is established that the claims of particular

creditors were satisfied on a priority basis compared with the claims of other creditors, that is, the priority established by law was breached, this, where the conditions specified in this article are present, constitutes a ground for applying to the court with a claim to declare the transaction invalid. Two subjects are entitled to bring such a claim to court: the judicial manager or a creditor.

Where the transaction is aimed at securing the performance of the obligations of the debtor or a third party to a particular creditor prior to the moment of performance of the transaction, the nature and legal consequences of such transaction must be assessed. Where the transaction is aimed at securing the performance of the obligations of the debtor or a third party to a particular creditor prior to the moment of performance of the transaction, its nature and legal consequences must be assessed. As a rule, such transactions are concluded for the purpose of securing obligations; however, they may lead to the granting of advantages or to a breach of the requirements of the law. In such case, the obligation of the debtor or a third party is secured until the moment of performance of the transaction and may be guaranteed in the form of a monetary payment or pledge security. If, as a result of the transaction, the priority of satisfaction of the claims of other creditors is breached, the established legal restrictions must be observed. If the court establishes the presence of a clear sign of the granting of an advantage, or if, in the course of considering the case, the likelihood of such an advantage is revealed, and the priority of satisfaction of creditors' claims established by Article 150 of this Law is breached, such transaction may be declared invalid even if it is aimed at the performance of an obligation. This is because the said priority is based on the principles of equality of creditors and fairness.

Where the transaction leads or may lead to a change in the priority of satisfaction of creditors' claims under obligations that arose before its conclusion, this is considered a breach of the established order. If, as a result of the transaction, the claims of particular creditors are satisfied earlier than the claims of other creditors, or particular creditors are granted a preferential right (for example, pledge security, a guarantee, an advance payment), such transaction leads to a change in the priority established by law. In the academic literature, such transactions are also called "transactions breaching priority." In particular, if the debtor, at the stage of insolvency, concludes a transaction and secures the claims of particular creditors by pledge, such actions grant that creditor an advantage, as a result of which the priority of satisfaction of claims is breached. Likewise, if the debtor performs an obligation to one creditor and makes a payment to that creditor, as a result of which the claims of another creditor remain unsatisfied, this is also considered the granting of an advantage. In such cases, the priority of satisfaction of creditors' claims is also breached.

A transaction that leads or may lead to the satisfaction of the claims of some creditors whose performance of obligations was not yet due at the time of the conclusion of the transaction, where there are obligations to other creditors that

were not performed within the established time. If the debtor has not paid its debts to particular creditors on time but at the same time prematurely satisfies the claims of other creditors whose performance of obligations was not yet due, such transaction is regarded as a transaction concluded with the granting of a preference and contrary to the interests of the remaining creditors, and is recognized as a "transaction creating an advantage." In foreign legal systems, transactions concluded with the granting of an advantage, as well as actions aimed at carrying them out, are designated as "undue preference" or "early repayment preference." If the presence of an advantage or the likelihood of its arising is sufficient, and this advantage breaches the priority and order of settlements established by law, such transaction may be declared invalid by the court. This is because the premature performance by a debtor in a state of insolvency of obligations that are not yet due breaches the principles of priority and equality. Therefore, the said provision is a criterion ensuring a guarantee of equality in the insolvency process. Its main function is the fair redistribution of premature payments or disbursements to "preferential creditors," ensuring an equal order of satisfaction of the claims of all creditors and maintaining the balanced management of financial interests in the insolvency procedure.

The commented provision serves to prevent a situation in which the debtor, at the stage of "approaching" insolvency, grants an advantage to "close" creditors or "principal partners," as a result of which other creditors are unable to obtain timely satisfaction of their claims. In such cases, the Law assesses not only the fact of payment but also its timing as well as its economic consequences. What matters is not only in whose favor the obligation was performed (the payment was made) but also when it was performed. If the transaction is declared invalid on the basis of this provision, the property or funds transferred under the transaction are subject to return, the claim of the relevant creditor is again included in the general priority, and the relations between the debtor and the "preferential creditor" are reconsidered.

Article 66. Invalidity of Transactions Relating to the Debtor's Successors

If transactions are concluded by the debtor in favor of heirs and other successors interested in the challenged transaction, such transactions may be declared invalid.

The commented article establishes that transactions concluded by the debtor in favor of the debtor's heirs and/or successors may be declared invalid.

As a general rule, the rights and obligations under a contract arise directly for its parties. However, the law permits the possibility of concluding a transaction in favor of a third party. The parties to a contract may stipulate that performance of the debtor's obligation is rendered not to the creditor but to a third party, whether or not designated in the contract, who has the right to demand performance of the obligation in the third party's favor. In particular, Article 362 of the CC defines a contract for

the benefit of a third party as a contract under which the debtor is obliged to perform the obligation not to the creditor but to a third party designated in the contract or having the right to demand performance in the third party's favor. Such transactions may cause harm to the interests of creditors, and therefore they too may be declared invalid.

If a debtor that is a physical person, being on the verge of bankruptcy or in a condition leading to bankruptcy, concludes transactions for the transfer of property, assets or other rights to the debtor's heirs (for example, children, spouse, brothers and so on) or to the successors of legal persons interested in the transaction (for example, legal persons created by the debtor, related organizations, affiliated persons), such transactions may be considered suspicious and serve as a ground for the court to declare them invalid. In this case, the transaction may also be unilateral. It is necessary to prove in court the existence of an interest of the debtor's counterparty as well as the arising of universal succession for the person with respect to whom the application to challenge the debtor's transaction is filed.

Article 67. Consequences of the Invalidity of a Transaction

Where a transaction concluded by the debtor is declared invalid by the court and the consequences of the invalidity of that transaction are applied, a party is obliged to return to the other party everything received under the transaction and, where it is impossible to return what was received in kind (including where what was received is expressed in the use of property, work performed or a service provided), to reimburse its value in money, unless other consequences of the invalidity of the transaction are provided for by law.

The party that concluded the transaction with the debtor is thereupon entitled to bring a claim against the debtor, the demands of which shall be satisfied in accordance with this Law.

If, in the cases provided for by this article, it is impossible to return property in kind owing to its loss, damage or unjustified acquisition by third parties, the original purchaser of the property shall be liable to the debtor for reimbursing the value of such property.

Where it is impossible to return the value of the property, the person who made the decision to alienate the debtor's property may be held subsidiarily liable in the manner established by this Law.

The commented article defines the legal consequences of a transaction declared invalid by the court, and also regulates the issues of liability of persons who concluded such transaction or participated in its conclusion in cases where the application of the consequences of the invalidity of the transaction is impossible.

1. Part one of this article establishes the universal legal consequences of a transaction declared invalid by the court. The invalidity of transactions is understood as their complete legal insignificance. The performance of such a transaction is prohibited by law. Actions performed to carry out such a transaction give rise to no

rights or obligations either for the parties to the transaction or for third parties. Just as there are general and special grounds for declaring a transaction invalid, there are likewise general and special consequences of the invalidity of a transaction. Under the general rule established in Article 114 of the CC, an invalid transaction, apart from the consequences connected with its invalidity, entails no other legal consequences and is considered invalid from the moment of its conclusion. The general consequences of the invalidity of a transaction under part two of Article 114 of the CC are expressed in bilateral restitution, that is, in restoring the parties to the position they were in before the conclusion of the transaction. Under this rule, upon the invalidity of a transaction, each party is obliged to return to the other everything received under the transaction.

When returning property in kind, its condition must be taken into account. For example, if the property was damaged, the deterioration of its condition, taking into account normal wear (depreciation), is subject to reimbursement. If the person who used the property made improvements to it that increased its value, the corresponding amount must be reimbursed by the party to whom the property is returned. It should be borne in mind that a demand for compensation of expenses incurred for improving the property, if no counter-demand for such compensation was asserted when the court applied the consequences of the invalidity of the transaction, is considered by the court in separate proceedings, since it is of a disputable nature.

If the return of what was received in kind is impossible (for example, in the case of the use of property, the performance of works or the provision of services), then, in the absence of other consequences of the invalidity of the transaction provided for by law, the relevant party is obliged to reimburse its value in monetary form. The amount of such reimbursement is determined on the basis of the price that is usually charged under similar circumstances for the use of similar property, the performance of similar works or the provision of similar services.

"Declaring a transaction invalid" and "applying the consequences of the invalidity of a transaction" are two independent demands. A demand to apply the consequences of the invalidity of a transaction may be asserted either simultaneously with a demand to declare a voidable transaction invalid or to declare a void transaction invalid, or as an independent claim. The consequences of the invalidity of a voidable transaction may be applied only where there is a court decision that has entered into legal force declaring that transaction invalid. If the voidable transaction was not declared invalid by a court decision, the application of the consequences of its invalidity is not permitted.

The consequences of the invalidity of a void transaction may be applied both after the satisfaction of the plaintiff's demand to declare the void transaction invalid and in the absence of such a court decision.

As noted above, alongside the consequences of the invalidity of a transaction in the form of restitution provided for by Article 114 of the CC, there are also special consequences of the invalidity of a transaction. Thus, the consequences provided for

by part two of Article 123 of the CC differ from the rules of bilateral restitution. If a transaction is declared invalid on the basis of Article 123 of the CC (the invalidity of a transaction concluded under the influence of deceit, violence, threat, a malicious agreement of the representative of one party with the other party or as a result of a confluence of difficult circumstances), the other party is obliged to return to the aggrieved party everything received under the transaction (in kind or in monetary form), and the property (or its value) received by the aggrieved party from the other party under the transaction is turned over to the revenue of the State.

If a transaction concluded in the presence of a conflict of interest is declared invalid, the profit received as a result of concluding such transaction is recovered by judicial procedure to the revenue of the State, regardless of whether a demand is made for the return of everything received under the transaction. The expenses connected with the performance of such transaction are reimbursed at the expense of the person who permitted the conflict of interest.

If a transaction concluded with manifestations of corruption is declared invalid, the harm caused to physical and legal persons as a result of concluding such transaction is reimbursed by the guilty persons by judicial procedure.

2. Part two of this provision enshrines the right of a party that concluded a transaction with a debtor recognized as insolvent to assert claims against such debtor. In other words, if the debtor's insolvency has become known, the person who concluded a contract with the debtor does not lose the right of claim. The party to the transaction is thereupon entitled to formalize its claim in the form of a counterclaim in relation to the original claim, or to apply to the court with a statement of claim in the general manner, in compliance with the rules established by the Economic Procedure Code and the Civil Procedure Code.

It must also be borne in mind that, in accordance with part one of Article 12 of the Law, when applying insolvency procedures the interests of all creditors are represented by the meeting of creditors or the committee of creditors. From the moment the court accepts for proceedings the application to commence an insolvency case against the debtor, creditors are not entitled to bring individual claims against the debtor for the purpose of independently satisfying their claims. Exceptions are claims: for recognition of a right of ownership; for compensation of moral harm; for the recovery of property from another's unlawful possession; for the return of unjust enrichment; for declaring transactions invalid and applying the consequences of their invalidity; for the application of measures of legal influence; as well as claims for current payments.

3. Part three of the commented article regulates the case where the return of property received from the debtor on the basis of an invalid transaction becomes impossible owing to the loss of the property, its damage or its unjustified acquisition by other persons. If the person who received the property knew or should have known that the property was received without lawful grounds, that person bears the corresponding liability. In such case the acquirer of property received from the

debtor, in addition to the obligation to reimburse the value of the property, also incurs the obligation to reimburse the losses caused to the debtor, if such losses were caused. Under part two of Article 14 of the CC, losses mean the expenses that the person whose right has been infringed has incurred or will have to incur to restore the infringed right, the loss of or damage to the person's property (actual damage), as well as the income that this person would have received under ordinary conditions of civil commerce had the person's right not been infringed, but did not receive (lost profit).

The purpose of establishing such rules is to reduce the risk of non-return of assets unlawfully alienated by a person, as well as to prevent the infringement of the rights and legitimate interests of creditors.

4. As a general rule, upon the invalidity of a transaction, each party is obliged to return to the other party everything received under the transaction. If the person who received the debtor's property on the basis of an invalid transaction subsequently alienated that property to another person (sold it, gave it as a gift and the like), as a result of which the return of the property to the debtor or the reimbursement of its value became impossible, such person may be held subsidiarily liable.

Such a person should be understood to mean a founder (participant) entitled to give instructions binding on the legal person that concluded the invalid transaction with the debtor, the owner of the property of the legal person, or a person managing the affairs of the debtor. The question of holding such a person subsidiarily liable is resolved in the manner established by Chapter 7 of the Law ("Liability of the Debtor's Manager and Other Persons in an Insolvency Case").

Article 68. Persons Entitled to Apply with an Application to Declare Transactions Invalid

A statement of claim to declare invalid a transaction concluded by the debtor may be filed with the court by the judicial manager on behalf of the debtor on the judicial manager's own initiative or by decision of the meeting of creditors or the committee of creditors, as well as by one or more creditors whose claims are included in the register of creditors.

The limitation period for a demand to declare invalid a transaction concluded by the debtor is calculated from the day on which the judicial manager learned or should have learned of the existence of the grounds for declaring the transaction invalid provided for by this Law.

The commented article defines the range of subjects vested with the authority to file an application to declare invalid transactions concluded by the debtor, as well as the procedure for calculating the limitation period for the judicial manager when asserting such a demand.

1. Under Article 113 of the CC, a demand to declare a transaction invalid may be asserted by the persons specified in the CC. In conducting insolvency procedures,

the judicial manager is obliged to analyze the debtor's financial condition, as well as to act reasonably and in good faith in the interests of the debtor and creditors. The performance of these duties, in turn, also presupposes an assessment of the lawfulness of the transactions concluded by the debtor. Therefore, the Law grants the judicial manager the right to apply to the court with a statement of claim to declare invalid any transaction concluded by the debtor before the commencement of an insolvency case or before the commencement of such a case and the introduction of external management or judicial rehabilitation procedures, on the grounds provided for by law. Such transactions may also be challenged after the introduction of insolvency procedures. It should be borne in mind that the judicial manager's application to the court with a demand to declare a transaction invalid is the judicial manager's independent right, and the exercise of this right does not require a decision of the meeting of creditors. Moreover, even if the meeting of creditors does not adopt a favorable decision on the question of filing a claim to declare a transaction invalid, the judicial manager is nonetheless entitled to apply to the court with the corresponding statement of claim on the judicial manager's own.

Under Article 19 of the Law of the Republic of Uzbekistan "On State Duty," the judicial manager, in exercising the judicial manager's rights and duties within an insolvency case, is entitled to apply to the court with statements of claim and other applications without paying the State duty. A similar provision is also contained in Article 23 of this Law.

Statements of claim to declare invalid transactions concluded by the debtor are considered outside the framework of the insolvency case, in compliance with the general rules on jurisdiction and venue established by procedural law (the Economic Procedure Code and the Civil Procedure Code). In accordance with paragraph 7 of part two of Article 149 of the Economic Procedure Code, if a demand to apply the consequences of the invalidity of a transaction is asserted, the statement of claim must specify exactly which consequences are to be applied with respect to each of the parties to the transaction. If the plaintiff asks that the consequences of the invalidity of the transaction be applied only with respect to itself, the court, by virtue of part two of Article 114 of the CC, is obliged on its own initiative to apply the consequences of the invalidity of the transaction also with respect to the other party.

In the course of bankruptcy proceedings, all actions performed with respect to the debtor are carried out on behalf of the creditors by the meeting of creditors or the committee of creditors. In particular, a decision of the meeting of creditors or the committee of creditors, as well as a decision of one or more creditors whose claims are included in the register of creditors' claims, is provided for as a ground for the judicial manager to assert a demand to declare a transaction invalid. At the same time, the Law grants the judicial manager the right to apply to the court with a statement of claim to declare a transaction invalid on the judicial manager's own initiative.

2. A limitation period is the period of time within which a claim may be satisfied, that is, one of the types of time periods. Under Articles 149–150 of the CC, the general limitation period is three years. This period is the period within which a person is entitled to defend the person's infringed right by bringing a claim. In accordance with Article 154 of the CC, the running of the limitation period begins on the day the person learned or should have learned of the infringement of the person's right. A change of persons in an obligation (Article 155 of the CC) does not entail a change in the limitation period or the procedure for calculating it. For example, for demands asserted by the liquidation commission (liquidation manager) of a legal person being liquidated, the running of the limitation period begins not on the day of the appointment of the liquidation commission (liquidation manager) but on the day the legal person being liquidated itself learned or should have learned of the infringement of its right. The same rule applies in the case where a newly appointed (elected) manager of a legal person asserts the argument that the running of the limitation period should be calculated from the day of the manager's appointment (election).

The CC provides that exceptions to the rule on the commencement of the running of the limitation period may also be established by other laws. The rule on the commencement of the running of the limitation period established by this Law is one of such exceptions provided for by the CC. In particular, in ordinary civil-law relations under obligations having a definite time of performance, the running of the limitation period begins after the expiry of the time of performance of the obligation. However, in a case to declare a transaction invalid within a bankruptcy procedure, the limitation period is calculated not from the day the person (debtor) learned or should have learned of the infringement of the person's right, but from the day the judicial manager learned or should have learned of the existence of the grounds for declaring the transaction invalid.

The third paragraph of part one of Article 109 of the Law establishes that the debtor's management bodies and/or the judicial manager appointed within the previous insolvency procedure are obliged to ensure the transfer to the external manager of the debtor's accounting and other documentation, seals and stamps (if any), and the debtor's material and other valuables within three working days from the moment of the appointment of the external manager. On the basis of this provision, the moment at which the judicial manager should have learned of the existence of the right to challenge the transaction may be determined by the time of the transfer of the debtor's accounting records and other documents, recorded in the act of acceptance and transfer of the debtor's documents. However, it should be borne in mind that a demand for the protection of an infringed right is accepted by the court for consideration regardless of the expiry of the limitation period.

CHAPTER 7. LIABILITY OF THE DEBTOR'S MANAGER AND OTHER PERSONS IN AN INSOLVENCY CASE

Article 69. Person Managing the Affairs of the Debtor

Unless otherwise provided by this Law, the following circumstances shall be recognized as managing the affairs of the debtor:

holding, during the three years preceding the emergence of signs of insolvency, the right to give binding instructions or the ability otherwise to determine the actions of the debtor, including with respect to the performance of transactions and the determination of their terms;

holding, during the period from the emergence of signs of insolvency until the court's acceptance of the application for the insolvency of the debtor, the right to give binding instructions or otherwise to determine the actions of the debtor, including the performance of transactions and the determination of their terms.

The persons managing the affairs of the debtor shall be:

the manager and the members of the executive body of the debtor, the liquidation commission or the liquidator of the debtor;

persons who have the right, independently or jointly with interested persons, to dispose of fifty or more percent of the shares of a joint-stock company;

persons having the right to dispose of more than one half of the participatory interests in the charter fund (charter capital) of a limited liability company or of other business entities;

persons having the right to appoint (elect) the manager.

The article under comment sets out the actions that are recognized as managing the affairs of the debtor, as well as the list of persons who manage the affairs of the debtor legal entity.

1. Part one of the article under comment discloses the meaning of the concept of "managing the affairs of the debtor." Persons who, during a certain period, managed the affairs of the debtor legal entity and held the corresponding powers may be held subsidiarily liable if they meet the conditions provided for by Article 70 of the Law.

1.1. The concept of "managing the affairs of the debtor" means holding, during the three years preceding the emergence of signs of the debtor's insolvency, the powers (right) to give binding instructions. The concept of "giving binding instructions" also includes the ability otherwise to determine the conduct of the debtor, including the conclusion of transactions, their performance, and the determination of their terms. This follows from the fact that part one of Article 70 of the Law provides that subsidiary liability arising from the incomplete satisfaction of creditors' claims may arise only as a result of the unlawful actions of a person who held the right to give binding instructions.

The manager and the members of the executive body of a legal entity, the liquidation commission, or the liquidator of the debtor hold the right to give

instructions that are binding on the legal entity, since they may act on behalf of the debtor. Thus, pursuant to part six of Article 79 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and Protection of the Rights of Shareholders," the director (chairman of the management board) of a company acts on behalf of the company without a power of attorney, including by representing its interests, concluding transactions on behalf of the company, appointing the heads of the company's branches and representative offices, approving the staffing schedule, and issuing orders and instructions that are binding on all employees of the company. In accordance with part four of Article 42 of the Law of the Republic of Uzbekistan "On Limited Liability Companies," the sole executive body of a company acts on behalf of the company without a power of attorney, including by representing its interests and concluding transactions. Pursuant to part three of Article 54 of the CC of the Republic of Uzbekistan, from the moment of the appointment of the liquidator, all powers to manage the affairs of the legal entity pass to the liquidator, and the liquidator appears in court on behalf of the legal entity being liquidated. Paragraph 11 of the Regulation "On the Procedure for the Voluntary Liquidation of Business Entities and the Termination of Their Activities," approved by Resolution No. 704 of the Cabinet of Ministers of the Republic of Uzbekistan of 21 August 2019, provides that the liquidator represents the commercial organization without a power of attorney, signs the financial, settlement and other documents of the commercial organization, and issues orders, directives and other documents that are binding on all officers and employees of the commercial organization.

Pursuant to part five of Article 48 of the CC of the Republic of Uzbekistan, a founder (participant) or the owner of the property of a legal entity is entitled to give binding instructions only where such a right is provided for by the constituent documents of that legal entity. Consequently, a founder (participant) or the owner of the property of a legal entity may give binding instructions only in the cases expressly provided for by the constituent documents.

It is of material significance that the person managed the debtor during the three years preceding the emergence of signs of the debtor's temporary or sustained insolvency. Managing the debtor outside the three-year period precludes the possibility of holding such a person subsidiarily liable on this basis.

1.2. The giving of binding instructions during the period from the emergence of signs of insolvency until the court's acceptance of the application for the institution of insolvency proceedings is likewise recognized as managing the affairs of the debtor. In this case, it is understood that a person who managed the debtor from the moment of the emergence of signs of temporary or permanent insolvency until the court's acceptance of the application for the institution of insolvency proceedings may be held subsidiarily liable.

2. Part two of the article under comment sets out the list of persons managing the affairs of the debtor legal entity.

2.1. The manager and the members of the executive body of the debtor, the liquidation commission or the liquidator of the debtor. The manager and the members of the executive body of any commercial legal entity, as well as of non-commercial organizations established in the form of a consumer cooperative or a public fund, together with the liquidation commission or the liquidator of a debtor enterprise undergoing voluntary or compulsory liquidation, shall be recognized as persons managing the affairs of the debtor.

2.2. Persons holding, independently or jointly with interested persons, fifty percent or more of the shares of a joint-stock company. The holding of fifty percent or more of the shares of a joint-stock company, independently or jointly with interested persons, shall be determined in accordance with Article 85 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and Protection of the Rights of Shareholders."

2.3. Persons holding more than one half of the participatory interest in the charter fund (charter capital) of a limited liability company or of another business entity. Pursuant to Article 15 of the Law of the Republic of Uzbekistan "On Limited Liability Companies," the charter fund (charter capital) of a company is determined by its charter and consists of the nominal value of the participatory interests of its participants. The size of the participatory interests in the charter fund (charter capital) of other business entities—a family enterprise, a business partnership, a farming enterprise and others—shall be determined in accordance with the relevant normative legal acts.

2.4. Persons having the right to appoint (elect) the manager. The term "manager" means the head of the executive body of the debtor. As a rule, the procedure and the conditions for the appointment (election) of the manager are set out in the constituent documents of the debtor enterprise. This procedure and these conditions for the appointment (election) of the manager are provided for by Article 79 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and Protection of the Rights of Shareholders," Article 42 of the Law of the Republic of Uzbekistan "On Limited Liability Companies" and other acts of legislation.

Pursuant to part seven of Article 79 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and Protection of the Rights of Shareholders," the formation of the executive bodies of a company and the early termination of their powers are carried out by decision of the general meeting of shareholders, unless the resolution of these matters is assigned by the charter of the company to the competence of the supervisory board of the company. In accordance with the charter of the company or a decision of the general meeting of shareholders or of the supervisory board of the company, the appointment of the director of the company or of the members of the management board is, as a rule, carried out based on a competitive selection in which foreign managers may participate.

Pursuant to part one of Article 42 of the Law of the Republic of Uzbekistan "On Limited Liability Companies," the sole executive body of a company (the director)

is elected by the general meeting of the company's participants for the term established by the charter of the company. The sole executive body of a company may also be elected from among persons who are not participants in the company.

Article 70. Subsidiary Liability in the Event of Incomplete Satisfaction of Creditors' Claims

Where the insolvency of a legal entity has been caused by the unlawful actions of a person as a founder (participant) having the right to give binding instructions to that legal entity, or of the owner of the property of the legal entity, or of a person managing the affairs of the debtor, then, in the event of insufficiency of the property of the legal entity, subsidiary liability for its obligations may be imposed on such person.

Until proven otherwise, the following circumstances established in a judicial act shall be deemed to have led to the impossibility of the complete satisfaction of creditors' claims as a result of unlawful actions:

where substantial harm has been caused to the property rights of creditors as a result of the conclusion, for the benefit of a person managing the affairs of the debtor or by such person, of one or several transactions of the debtor (the conclusion of such transactions upon the instruction of such person), including transactions provided for by Chapter 6 of this Law;

where there is a court decision that has entered into legal force establishing that the joint actions of beneficiaries and affiliated persons have revealed signs of false insolvency, concealment of insolvency or deliberate insolvency of the debtor;

the debt arising in connection with the adoption of a judicial act holding the persons managing the affairs of the debtor liable for a violation of acts of legislation exceeds seventy percent of the total amount of the claims included in the register of creditors' claims.

Where the unlawful actions of several persons managing the affairs of the debtor make the complete satisfaction of creditors' claims impossible, such persons shall bear subsidiary liability on a joint and several basis.

The court may release a person from subsidiary liability or reduce the amount of liability if it is not proven that the person held subsidiarily liable exerted a decisive influence over the activities of the debtor.

The amount of the subsidiary liability of a person managing the affairs of the debtor shall be equal to the difference between the sum of the claims included in the register of creditors' claims and the liquidation estate.

Where it is proven that the amount of the subsidiary liability of a person managing the affairs of the debtor is less than the amount of the harm caused to the property rights of creditors through the fault of such person, the amount of the claims subject to satisfaction at the expense of that managing person may be reduced accordingly.

Where the insolvency of a legal entity has arisen as a result of the unlawful actions of a founder (participant) or of the owner of the property of the legal entity who has the right to give binding instructions to the legal entity, such persons shall not be entitled to participate as a manager and (or) as a founder

(participant) or as the owner of property in other legal entities until the obligations of the debtor to its creditors have been discharged.

The article under comment defines the grounds for and the procedure for applying subsidiary liability in connection with the incomplete satisfaction of creditors' claims.

1. Part one of the article under comment separately refers to the concepts of "founder (participant)," "owner of the property of the legal entity" and "person managing the affairs of the debtor." However, these may be assigned to the category of "persons managing the affairs of the debtor" set out in part two of Article 69 of the Law, since the subsequent provisions of the Law use only the term "persons managing the affairs of the debtor," while such terms as "founder (participant)" and "owner of the property of the legal entity" are no longer used. On this basis, it may be concluded that only the persons managing the affairs of the debtor specified in part two of Article 69 of the Law may be held subsidiarily liable. Other persons may not be held subsidiarily liable, since the Law itself (including Article 69) does not provide for any exceptions. In addition, pursuant to part two of Article 73 of the Law, if it is established that there are insufficient data confirming that the person specified in the application for the imposition of subsidiary liability is a person managing the affairs of the debtor, the court shall refuse to hold such person subsidiarily liable.

Resolution No. 13 of the Plenum of the Supreme Court of the Republic of Uzbekistan of 23 June 2025 "On Certain Issues of the Application by Economic Courts of the Provisions of the Law of the Republic of Uzbekistan 'On Insolvency'"

13. The courts are drawn to the fact that the list of persons participating in an insolvency case set out in Article 38 of the Law is not exhaustive. Thus, pursuant to the Law, the persons participating in an insolvency case also include:

a person held subsidiarily liable on the basis of an application filed with the court within the framework of an insolvency case (part one of Article 72 of the Law);

This provision establishes that, where the insolvency of a legal entity is established and such a condition arose as a result of the unlawful actions of the persons managing the affairs of the debtor, subsidiary liability may be imposed on such persons. Pursuant to part three of Article 45 of the CC, a person who, in accordance with the law or the constituent documents of the legal entity, acts on behalf of the legal entity is obliged to act in good faith and reasonably in the interests of the legal entity it represents. Pursuant to Article 329 of the CC, before bringing a claim against a person bearing additional liability for the obligations of another person who is the principal debtor (subsidiary liability), the creditor is obliged to bring the claim against the principal debtor. If the principal debtor has refused to

satisfy the creditor's claim, or if the creditor has not received a response from the principal debtor to the claim brought within a reasonable period, such claim may be brought against the person bearing subsidiary liability. In the situation under consideration, the debtor enterprise itself is recognized as the principal debtor, while the persons managing the affairs of the debtor may bear additional (subsidiary) liability.

2. Part two of the article under comment uses the wording "until proven otherwise," which may be regarded as a ground for release from subsidiary liability or for the mitigation of such liability. Such grounds include external factors (unfavorable market conditions, a financial crisis, a substantial change in the conditions for conducting business, accidents, natural disasters, other incidents and the like).

In addition, it is specifically emphasized that the unlawful actions must be confirmed exclusively by a judicial act.

This provision specifies the following circumstances as unlawful actions that have worsened the financial position of the debtor and that have been confirmed by the court.

2.1. First, an unlawful action is deemed to be the situation where a person managing the affairs of the debtor, in its own interests or on the basis of its instructions, facilitated the conclusion by the debtor of one or several transactions, including transactions provided for by Chapter 6 of the Law (Invalidity of Transactions), where such transactions caused substantial harm to the property rights of creditors.

2.2. Second, an unlawful action is deemed to be the case where signs of fictitious insolvency, the concealment thereof, or the deliberate bringing of the debtor to insolvency were established as a result of the joint actions of beneficiaries and affiliated persons, and this fact has been confirmed by a court decision that has entered into legal force.

2.3. Third, an unlawful action is also deemed to be the situation where the persons managing the affairs of the debtor have been held liable for a violation of legislation, and the debt arising as a result thereof amounts to more than 70 percent of the total volume of claims included in the register of creditors' claims.

Resolution No. 13 of the Plenum of the Supreme Court of the Republic of Uzbekistan of 23 June 2025 "On Certain Issues of the Application by Economic Courts of the Provisions of the Law of the Republic of Uzbekistan 'On Insolvency'"

33. The grounds for holding persons subsidiarily liable are:

the failure of the manager of the debtor, the members of the liquidation commission or the liquidator to file with the court an application for the institution of insolvency proceedings against the debtor, where the filing of such an application is mandatory (Article 10 of the Law);

the impossibility of returning the value of property where the court has declared a transaction concluded by the debtor invalid and has applied the consequences of the invalidity of that transaction (part four of Article 67 of the Law);

where the insolvency of a legal entity has been caused by the unlawful actions of a person as a founder (participant) having the right to give binding instructions to that legal entity, or of the owner of the property of the legal entity, or of a person managing the affairs of the debtor, in the event of insufficiency of the property of the legal entity (part three of Article 48 of the CC, part one of Article 70 of the Law);

where the unlawful actions of several persons managing the affairs of the debtor make the complete satisfaction of creditors' claims impossible (part three of Article 70 of the Law);

the failure of persons who provided security for the performance of obligations to perform the obligations arising from the security provided within the period established in part one of Article 107 of the Law (part two of Article 107 of the Law);

the unlawful actions (inaction) of the founders (participants), the owner and (or) the manager of the developer that led to insolvency, in the event of insufficiency of the property of the developer (Article 193 of the Law).

3. Pursuant to this provision, where several persons who managed the affairs of the debtor have, by their unlawful actions, made the complete satisfaction of creditors' claims impossible, such persons shall be held subsidiarily liable on a joint and several basis. Joint and several liability means the imposition of liability on each of the persons who managed the affairs of the debtor, in full or in part, and, where the property of the debtor is insufficient, the creditors are entitled to bring a claim for the repayment of the debt against any of these persons. In accordance with Article 252 of the CC, where the debtors' obligation is joint and several, the creditor is entitled to demand performance of the obligation both from all the debtors jointly and from any of them individually, whether in full or as to part of the debt. A creditor who has not received complete satisfaction of its claims from one of the joint and several debtors has the right to demand the unrecovered amount from the remaining joint and several debtors. The joint and several debtors remain bound until the obligation is performed in full.

4. This provision establishes the possibility of releasing a person from subsidiary liability or of reducing the amount of such liability. If it is not proven in court that the person held subsidiarily liable exerted a decisive influence over the activities of the debtor, the court is entitled to release such person from subsidiary liability or to reduce the amount of its liability.

In this situation, there arises a need to clarify the meaning of the concept of "exerting a decisive influence." A person is deemed to have exerted a decisive influence over the activities of the debtor if the conditions constituting the grounds for the imposition of subsidiary liability provided for by Articles 69 and 70 of the

Law are applicable to that person or to its actions (inaction). If the fact of exerting a decisive influence is not proven in court, the person is released from subsidiary liability.

In addition, part four of the article under comment provides for the possibility of reducing the amount of subsidiary liability. Such a reduction is carried out subject to the conditions specified in part six of the article under comment, namely where it is proven in court that the amount of the harm caused to the property rights of creditors is less than the amount of the subsidiary liability.

5. This provision establishes the amount of subsidiary liability. Pursuant to it, where a person who managed the affairs of the debtor is held subsidiarily liable, the amount of such liability is determined as the difference between the sum of the claims included in the register of creditors' claims and the liquidation estate. In so doing, the amount of the harm caused to the property rights of creditors must be equal to or exceed the amount of the subsidiary liability.

6. If it is proven in court that the amount of the harm caused to the property rights of creditors through the fault of a person who managed the affairs of the debtor is less than the amount of the subsidiary liability, the liability of such person is subject to reduction. The amount of liability must correspond to the actual amount of the harm caused.

7. This provision sets out other consequences (in addition to subsidiary liability) that may ensue once it has been proven that the insolvency of a legal entity arose as a result of the unlawful actions of a founder (participant) or of the owner of property having the right to give binding instructions to that legal entity. In particular, where the unlawful actions are confirmed by a judicial act (in accordance with part two of Article 70 of the Law), the founder (participant) or the owner of property shall not be entitled to participate in the matter as the manager of the debtor, as another founder (participant) or as the owner of property until the obligations of the debtor to its creditors have been satisfied in full.

Article 71. Persons Entitled to File an Application for the Imposition of Subsidiary Liability

The persons participating in an insolvency case from the day the debtor is declared bankrupt and liquidation proceedings commence, as well as the judicial manager on its own initiative or in accordance with a decision of the meeting of creditors or of the committee of creditors or upon the instruction of the authorized state body, shall have the right to file with the court an application for the imposition of subsidiary liability.

Where the grounds provided for by Article 70 of this Law are present, the employees or former employees of the debtor shall be entitled to file with the court an application for the imposition of subsidiary liability on persons in respect of debt left uncovered owing to insufficiency of property, following the issuance of the court's ruling on the completion of the liquidation proceedings.

On the grounds provided for by Article 70 of this Law, a person entitled to file an application for the imposition of subsidiary liability may file with the court an application for the imposition of subsidiary liability within three years from the day on which it learned or should have learned of the existence of the corresponding grounds for subsidiary liability, but no later than three years after the issuance of the court's ruling on the completion of the debtor's liquidation proceedings.

The article under comment sets out the legal grounds concerning the persons entitled to file an application for the imposition of subsidiary liability.

1. Part one of the article under comment defines who is entitled to file with the court an application for the imposition of subsidiary liability and in what cases. Pursuant to this provision, such an application may be filed only after the debtor has been declared bankrupt and liquidation proceedings have been opened (exceptions are provided for by parts two and three of this article as well as by Article 76 of the Law). Pursuant to Article 76 of the Law, persons whose claims have not been satisfied in full following the completion of the insolvency proceedings are entitled to file with the court an application for the imposition of subsidiary liability outside the framework of the insolvency case, where there are grounds for such liability.

The persons participating in an insolvency case (creditors, the judicial manager and others) have the right to file with the court an application for the imposition of subsidiary liability. In accordance with part one of Article 72 of the Law, a person held subsidiarily liable on the basis of an application filed within the framework of an insolvency case is a person participating in the insolvency proceedings. Consequently, the persons who managed the affairs of the debtor are also entitled to apply to the court on the matter of their own being held subsidiarily liable.

The Law does not expressly provide for a decision of the meeting of creditors, of the committee of creditors or an instruction of the authorized state body as mandatory documents constituting a ground for filing an application for the imposition of subsidiary liability. Therefore, the persons participating in the case are entitled to apply to the court on their own initiative even in the absence of the said documents.

2. Pursuant to this provision, even after the court has issued a ruling on the completion of the liquidation proceedings, the employees of the debtor or the former employees of the debtor are entitled to file with the court an application for the imposition of subsidiary liability on the relevant persons in respect of the outstanding debt. This right is granted both to the employees and to the former employees of the debtor. Moreover, in this situation as well, an application to the court does not require the existence of a decision of the meeting of creditors, of the committee of creditors or of an instruction of the authorized state body.

3. A general limitation period is established for the employees and former employees of the debtor with respect to claims for the imposition of subsidiary liability. Pursuant to this provision, the employees and former employees of the debtor are entitled to file with the court an application for the imposition of subsidiary

liability on the relevant persons within three years from the day on which they learned or should have learned of the existence of grounds for the imposition of such liability, but no later than three years from the day on which the court issued the ruling on the completion of the liquidation proceedings in respect of the debtor.

Article 72. Rights of a Person Held Subsidiarily Liable

A person held subsidiarily liable on the basis of an application filed with the court within the framework of an insolvency case is a person participating in the insolvency case.

A person held subsidiarily liable has a right of recourse against the debtor within the framework of the insolvency case, which is satisfied after the satisfaction of all other claims of creditors included in the register of creditors' claims.

The article under comment sets out the rights of a person held subsidiarily liable.

1. Pursuant to part one of the article under comment, a person who may be held subsidiarily liable on the basis of an application filed within the framework of an insolvency case is recognized as a person participating in the insolvency case.

2. A person held subsidiarily liable has the right to bring claims of recourse against the debtor. If such person has satisfied the claims of creditors, it is entitled subsequently to bring its claims against the debtor. The right to claims of recourse is exercised after the repayment of the debt included in the register of creditors' claims. As a rule, a claim of recourse is brought after the application of subsidiary liability, where property of the debtor is identified or returned.

Article 73. Consideration of an Application for the Imposition of Subsidiary Liability

An application for the imposition of subsidiary liability shall be considered by the court in accordance with the procedure established by this Chapter.

The court may refuse to impose subsidiary liability if it is established that there is insufficient information that the person specified in the application is a person managing the affairs of the debtor.

Where insolvency proceedings are instituted in respect of a person held subsidiarily liable, the question of holding that person liable shall be considered within the framework of the insolvency case.

Where it is impossible to determine the amount of subsidiary liability in the course of considering an application for the imposition of subsidiary liability on the grounds provided for by Article 70 of this Law, the court shall issue a ruling on the suspension of the consideration of the application until all the evidence necessary for the imposition of subsidiary liability has been established and the settlements with the creditor have been completed. This ruling may be appealed (protested).

Where the court, in the course of considering the application, has issued a ruling on securing the claim, the measures to secure the claim shall remain in effect during the period of suspension of the consideration of that application.

Where, after the completion of the settlements with creditors, the claims of creditors remain unsatisfied owing to insufficiency of the property of the debtor, the liquidation manager shall file with the court an application for the resumption of the case on the imposition of subsidiary liability, attaching a report on the results of the conduct of the liquidation proceedings as well as a decision of the meeting of creditors on the amount of the unrecovered claims of creditors.

The question of determining the amount of subsidiary liability and the report of the liquidation manager on the results of the conduct of the liquidation proceedings shall be considered by the court.

The article under comment establishes the procedure for determining the status of a person and its managerial position in the process of the imposition of subsidiary liability, the suspension of the insolvency proceedings where the amount of subsidiary liability has not been determined, as well as the operation of the measures to secure the claim during that period and the procedure for resuming the case on the imposition of subsidiary liability, with the attachment of a decision of the meeting of creditors where the property of the debtor is insufficient.

1. This provision indicates that an application for the imposition of subsidiary liability is considered exclusively in accordance with the rules provided for by Chapter 7 of the Law.

2. Part two of the article under comment provides that the subjects of subsidiary liability may only be persons managing the affairs of the debtor. Pursuant to part two of Article 69 of the Law, the persons managing the affairs of the debtor include: the manager and the members of the executive body of the debtor, the liquidation commission or the liquidator of the debtor; persons holding, independently or jointly with interested persons, fifty or more percent of the shares of a joint-stock company; persons having the right to dispose of more than one half of the charter fund (charter capital) of a limited liability company or of another business entity; persons having the right to appoint (elect) the manager. If the application lacks sufficient information that the person held subsidiarily liable is a person managing the affairs of the debtor, the court shall refuse to impose subsidiary liability.

3. The question of holding a person subsidiarily liable is considered exclusively within the framework of the given insolvency case and, during the period of its consideration, may not be severed separately and considered by other courts (judges). The consideration of the question of the imposition of subsidiary liability is permitted only after the completion of the insolvency case. Part one of Article 76 of the Law provides for the possibility of filing an application for the imposition of subsidiary liability after the completion of the insolvency proceedings: persons whose claims have not been satisfied in full have the right to file with the court an application for

the imposition of subsidiary liability outside the framework of the insolvency case, where the corresponding grounds are present.

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33.1. The courts are drawn to the fact that, where there are grounds for the imposition of subsidiary liability, the persons participating in an insolvency case are entitled to file with the court a corresponding application both within and outside the framework of the insolvency case (Articles 71 and 76 of the Law).

4. If it is impossible to determine the amount of subsidiary liability, the court shall issue a ruling on the suspension of the consideration of the application. This condition means that, if all the necessary evidence and information have not been established and the settlements with creditors have not been completed, the court temporarily suspends the consideration of the application. The said ruling may be appealed (protested).

5. If, in the course of considering the application, the court has already issued a ruling on the adoption of measures to secure the claim, then, during the period of suspension of the consideration of the application, such measures to secure the claim continue to operate. In this case, even where the court has suspended the consideration of the matter, the legal measures to secure the claim retain their force. Pursuant to Article 93 of the EPC, an application by a person participating in the case constitutes a ground for the adoption of measures to secure the claim, and such measures are permitted at any stage of economic court proceedings if the failure to adopt them could hinder or render impossible the enforcement of the judicial act.

6. Part six of this Article provides that, where, after the completion of the settlements with creditors, the property of the debtor is insufficient, the liquidation manager is entitled to file with the court an application for the resumption of the proceedings in the case on the imposition of subsidiary liability. For this purpose, the liquidation manager shall attach to the application a report on the results of the conduct of the liquidation proceedings as well as a decision of the meeting of creditors on the amount of the unsatisfied claims of creditors.

7. The report on the results of the conduct of the liquidation proceedings and the question of determining the amount of subsidiary liability shall be considered by the court. Pursuant to Article 158 of the Law, after the completion of the settlements with creditors, the liquidation manager is obliged to submit to the court a report on the results of the liquidation proceedings. The following are attached to the said report: documents confirming the realization of the property of the debtor; the register of creditors' claims indicating the amount of the satisfied claims of creditors; documents confirming the satisfaction of the claims of creditors; information on the

property of the debtor provided for by Article 159 of this Law (the property of the debtor remaining after the satisfaction of the claims of creditors).

Article 74. Exercise of the Right of Claim for the Imposition of Subsidiary Liability

Within three days from the date of receipt of a judicial act that has entered into legal force imposing subsidiary liability on the persons managing the affairs of the debtor, the liquidation manager shall notify the creditors of the choice of the method of exercising the right of claim for the imposition of subsidiary liability.

Within ten days from the date of receipt of such notification, a creditor is entitled to send to the liquidation manager an application choosing one of the following methods of exercising the right of claim for the imposition of subsidiary liability:

recovery of the debt within the framework of the insolvency case;

sale of the right of claim;

waiver of the right of claim or part thereof in favor of another creditor.

Within twenty days from the date of dispatch of the notification provided for by part one of this article, the liquidation manager shall send to the court a report on the results of the creditors' choice of the method of exercising the right of claim for the imposition of subsidiary liability.

The report must indicate information on the choice of each creditor and on the amount and priority of the claims.

Where a creditor fails to submit an application within the period provided for by part two of this article, the creditor shall be deemed to have chosen the method provided for by paragraph two of part two of this article.

By the judicial act on the imposition of subsidiary liability, the court shall:

to each creditor who has chosen the method provided for by paragraph three of part two of this article, issue, in accordance with the amount of the claims, an enforcement document indicating the priority and the amount of satisfaction of the claim provided for by Article 150 of this Law;

issue an insolvency enforcement document in the name of the debtor as the recoverer of the remaining sum.

Where the sum of the claims of the creditors who have chosen the method provided for by paragraph two of part two of this article exceeds the sum of the claims of the creditors who have chosen the method provided for by paragraphs three and four of part two of this article, the liquidation manager shall recover the debt under the subsidiary liability within the framework of the insolvency case. Otherwise, the judicial manager shall convene a meeting of creditors in order to approve the methods of sale of the right of claim and of waiver in favor of another creditor.

Where a writ of execution to secure the enforcement of a judicial act on the imposition of subsidiary liability has been issued in the name of the debtor as the recoverer in the case within the framework of the insolvency proceedings, and its enforcement would lead to an exceeding of the term of the liquidation proceedings provided for by Article 140 of this Law, the debt may be recovered by means of a waiver of the claim in favor of another person or the transfer of the debt to another person.

The article under comment establishes the procedure, following the entry into force of a court decision on the imposition of subsidiary liability, for the creditors' choice of the method of satisfying their claims, in particular: the creditors are entitled to recover the debt within the framework of the insolvency case, to assign the right of claim or to waive it in favor of another creditor; on the basis of these choices, the liquidation manager submits a report to the court and ensures the preparation of the enforcement documents; if a creditor does not make a choice, it is deemed to have chosen recovery of the debt in the claim.

1. Within three days from the date of receipt of the judicial act imposing subsidiary liability on the persons managing the affairs of the debtor, the liquidation manager is obliged to notify the creditors of the method of choosing how to exercise the right of claim.

2. After receiving notification of the judicial act imposing subsidiary liability on the persons managing the affairs of the debtor, the creditors may, within ten days, send to the liquidation manager an application choosing one of the following methods of exercising the right of claim under the subsidiary liability: recovery of the debt within the framework of the insolvency case; sale of the right of claim; waiver of the right of claim or part thereof in favor of another creditor.

3. Pursuant to this provision, within twenty days from the date of sending the creditors' notification of the judicial act imposing subsidiary liability on the persons managing the affairs of the debtor, the liquidation manager shall send to the court a report on the results of the creditors' choice of the method of exercising the right of claim under the subsidiary liability.

4. The report on the results of the creditors' choice of the method of exercising the right of claim for the imposition of subsidiary liability on the persons managing the affairs of the debtor must indicate: the choice of each creditor; the amount of the claims; and precise information on the priority of the claims.

5. If, within ten days after the creditor receives notification of the judicial act imposing subsidiary liability on the persons managing the affairs of the debtor, the creditor does not submit to the liquidation manager an application choosing the method of exercising the subsidiary liability, the method is deemed to have been chosen. That is, the method consisting of recovery of the debt is deemed to have been chosen automatically.

6. On the basis of the judicial act on the imposition of subsidiary liability, the court issues to each creditor who has chosen the method of exercise an enforcement document indicating the priority and the amount of satisfaction of the claim provided for by Article 150 of this Law, as well as an enforcement document for the remaining sum as a recovery from the debtor.

7. Where the sum of the claims of the creditors who have chosen the method (recovery of the debt within the framework of the insolvency case) provided for by the second paragraph of part two of this article exceeds the sum of the claims of the

creditors who have chosen the methods provided for by the third and fourth paragraphs of part two of this article (sale of the right of claim, waiver of the right of claim or part thereof in favor of another creditor), the liquidation manager shall carry out the recovery of the debt under the subsidiary liability. If this is impossible, the judicial manager shall convene a meeting of creditors in order to approve the methods of sale of the right of claim and of waiver thereof in favor of another creditor.

8. Where an enforcement document on the imposition of subsidiary liability has been issued in the name of the debtor as the recoverer and its enforcement leads to an extension of the term of the liquidation proceedings provided for by Article 140 of this Law, recovery may be carried out by means of a waiver of the claims in favor of another person or the transfer of the debt to another person. Pursuant to part two of Article 140 of the Law, the term of the liquidation proceedings may not exceed twelve months and, where necessary, may be extended by up to three months upon the petition of a participant in the insolvency case or on the court's own initiative. Pursuant to Article 319 of the CC, the waiver by a creditor of its claim in favor of another person is permitted if this does not contravene the legislation or the contract. A waiver of a claim without the consent of the debtor is not permitted if the identity of the creditor is of material significance for the obligation. Pursuant to Article 322 of the CC, the transfer of a debt to another person is permitted only with the consent of the creditor. The new debtor is entitled to raise against the creditor's claims all the objections based on the relations between the original debtor and the creditor.

Article 75. Enforcement of a Judicial Act on the Imposition of Subsidiary Liability

Any creditor holding a judicial act on subsidiary liability is entitled to demand the institution of enforcement proceedings. In the course of such enforcement proceedings, the claims of the recoverers shall be satisfied in the order of priority provided for by this Law.

The monetary funds received in the course of the enforcement of a judicial act on the imposition of subsidiary liability shall be applied to the satisfaction of the claims of creditors. In order to give effect to the requirements of this rule, the liquidation manager shall transfer these funds to a special deposit account of the court.

The article under comment sets out the grounds for and the procedure for the enforcement of a judicial act on the imposition of subsidiary liability.

1. Any creditor holding a judicial act on the imposition of subsidiary liability is entitled to institute enforcement proceedings. In the course of the enforcement proceedings, the claims of the recoverers must be satisfied in accordance with the order of priority established by this Law. In this connection, it should be specifically noted that the claims of the recoverers are satisfied not in accordance with the order of priority established by Article 80 of the Law of the Republic of Uzbekistan "On

the Enforcement of Judicial Acts and Acts of Other Bodies," but in accordance with the order of priority provided for by Articles 149 and 150 of this Law.

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33.2. An application for the imposition of subsidiary liability filed within the framework of an insolvency case is considered by the court in accordance with the procedure established by the Law (Article 73 of the Law).

Following the consideration of the application, the court issues a ruling in which it indicates the total sum subject to recovery from the person held subsidiarily liable, including in favor of each of the creditors who have chosen the method provided for by part two of Article 74 of the Law, as well as in favor of the debtor as to the remaining part. On the basis of the ruling, a writ of execution is issued for the compulsory enforcement of the judicial act.

The monetary funds received in the course of the enforcement of a judicial act on the imposition of subsidiary liability are subject to application to the satisfaction of the claims of creditors (part two of Article 75 of the Law).

2. The monetary funds received towards the enforcement of a judicial act on the imposition of subsidiary liability are applied to the satisfaction of the claims of creditors. For any creditor, the monetary funds are distributed in accordance with the order of priority established by Articles 149 and 150 of the Law. The liquidation manager transfers the funds received from the imposition of subsidiary liability to a special deposit account of the court, out of which the claims of creditors are satisfied.

Article 76. Consideration of an Application on Subsidiary Liability Outside the Framework of an Insolvency Case

After the completion of the insolvency proceedings, the persons whose claims have not been satisfied in full shall be entitled to file with the court an application for the imposition of subsidiary liability, where there are grounds for the imposition of subsidiary liability, outside the framework of the insolvency case.

Where an application for the imposition of subsidiary liability has been filed in accordance with part one of this article, the following actions shall be performed in the course of considering the application:

where the application does not specify the persons interested in the imposition of subsidiary liability on the persons managing the debtor, the court shall leave such application without progress and grant the applicant the right to familiarize itself with the insolvency case for the purpose of identifying the interested persons;

the application shall be considered in accordance with the provisions of economic and civil procedural legislation, irrespective of the number of applicants;

the judicial act on the imposition of subsidiary liability on a person shall indicate the sum recovered in favor of each creditor and the order of priority of satisfaction of the claims;

in the enforcement document issued on the basis of the judicial act imposing subsidiary liability on the persons managing the affairs of the debtor, in addition to the information on the sum payable to each creditor, the court shall indicate the order of priority of satisfaction of the claim of each creditor.

The article under comment establishes the procedure, conditions and procedural features of the consideration of an application for the imposition of subsidiary liability outside the framework of an insolvency case. This provision constitutes an important legal mechanism aimed at the additional protection of the rights and legitimate interests of creditors.

1. After the completion of the insolvency proceedings, the persons whose claims have not been satisfied in full are entitled, where there are grounds for the imposition of subsidiary liability, to file with the court a corresponding application. This rule affords creditors the possibility of recovery from other persons who may bear liability for the obligations of the debtor in cases of insufficiency of its property. In so doing, it is provided that the persons participating in an insolvency case are entitled to initiate this claim both within the framework of the case and independently, which ensures alternative procedural forms of protection of the right.

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33.3. An application for the imposition of subsidiary liability outside the framework of an insolvency case may be filed with the court within three years from the day on which a person participating in the insolvency case learned or should have learned of the existence of grounds for the imposition of subsidiary liability, but no later than three years from the date of the issuance of the court's ruling on the completion of the debtor's liquidation proceedings.

2. Where an application for the imposition of subsidiary liability has been filed after the completion of the insolvency proceedings, the court, in the course of considering it, performs the following procedural actions:

2.1. Where the application does not specify the persons interested in the imposition of subsidiary liability on the managers of the debtor, the court leaves the application without progress and grants the applicant the right to familiarize itself with the materials of the insolvency case for the purpose of identifying the interested

persons. In this way, the court forms the necessary group of participants for the comprehensive and complete consideration of the case.

2.2. The application is considered irrespective of the number of persons filing it, in accordance with the provisions of the EPC and the CPC, which ensures a uniform procedural approach to cases of this category.

2.3. In the judicial act on the imposition of subsidiary liability, the sum subject to recovery in favor of each creditor, as well as the order of priority of satisfaction of their claims, is indicated as a mandatory and separate matter, which serves to prevent uncertainty in the enforcement proceedings.

2.4. In the enforcement document issued on the basis of the judicial act imposing subsidiary liability on the managers (the persons managing the affairs of the debtor), the sums payable to each creditor, as well as the order of priority of satisfaction of the claims, are likewise indicated, which ensures the correct and consistent performance of the enforcement actions.

In conclusion, it should be noted that the article under comment establishes the legal and procedural foundations for the consideration of an application for the imposition of subsidiary liability outside the framework of an insolvency case, creating additional guarantees for the protection of creditors' rights and ensuring the transparency and efficiency of the enforcement proceedings through the clear regulation of the procedure for considering such applications.

Article 77. Features of the Conclusion and Approval of a Settlement Agreement in the Course of Considering an Application for the Imposition of Subsidiary Liability

In the course of considering an application for the imposition of subsidiary liability, a settlement agreement may be concluded.

Where the person held subsidiarily liable provides information on property the amount of which is sufficient for the performance of the settlement agreement, that settlement agreement may be approved by the court.

A settlement agreement may be concluded only between the person who filed the application for the imposition of subsidiary liability and the person held subsidiarily liable.

The terms of the settlement agreement (including the provision of compensation, the exchange of claims for participatory interests or shares in the charter fund (charter capital), bonds or other shares convertible into bonds, or other securities, innovative ideas and the like) shall be drawn up on the basis of the unanimous approval of the persons who filed the applications for the imposition of subsidiary liability.

In the event of failure to perform the terms of the settlement agreement within the established period, a creditor is entitled to apply to the court that considered the application for the imposition of subsidiary liability in order to obtain a writ of execution for the recovery of the debt.

The article under comment establishes the features of the procedure for the conclusion and approval of a settlement agreement in the process of considering an application for the imposition of subsidiary liability, and also discloses the differences between this institution and the general institution of settlement agreement in an insolvency case.

1. In accordance with this provision, the conclusion of a settlement agreement is permitted at the stage of considering an application for the imposition of subsidiary liability. However, such a settlement agreement differs from the general settlement agreement provided for in Chapter 12 of the Law, since it does not require the participation of all the creditors and does not depend on a decision of the meeting of creditors.

2. The court approves the settlement agreement only where the subsidiarily liable person has provided information confirming that it has sufficient property for its performance. This requirement is aimed at ensuring the genuineness and enforceability of the settlement agreement.

3. In accordance with part three of this article, a settlement agreement is concluded exclusively between the person who filed the application for the imposition of subsidiary liability and the person held subsidiarily liable. This evidences the individual and private-law character of these relations.

4. Where an application for the imposition of subsidiary liability has been filed by several persons, the terms of the settlement agreement (the provision of compensation, the exchange of claims for participatory interests in the charter fund (charter capital), shares, bonds or other securities, as well as for innovative ideas and the like) must be unanimously approved by all the applicants. This ensures the equal protection of the interests of creditors.

5. In the event of failure to perform the terms of the settlement agreement on subsidiary liability within the established period, certain legal consequences may ensue. In such a case, a creditor is entitled to apply to the relevant court and obtain a writ of execution for the compulsory recovery of the debt. This provision constitutes an important procedural guarantee of the performance of the settlement agreement.

CHAPTER 8. OBSERVATION PROCEDURE

Article 78. Introduction of the Observation Procedure

Upon the institution of insolvency proceedings, the observation procedure shall be introduced as of the date on which the court accepts for proceedings the application for the institution of insolvency proceedings against a legal entity debtor, except in cases where, in accordance with this Law, another insolvency procedure must be applied to the debtor. Where insolvency proceedings are instituted, the court ruling on the acceptance of the application for proceedings shall state that the observation procedure is being introduced.

The article under comment establishes the procedure for introducing observation upon the institution by the court of insolvency proceedings against a legal entity debtor.

This provision determines the legal grounds and the moment at which the observation procedure begins. It constitutes an important procedural rule governing the initial stage of bankruptcy proceedings.

In accordance with the definition set out in Article 3 of the Law, the observation procedure is a judicial procedure applied to a legal entity debtor for the purposes of safeguarding its property, analyzing its financial condition, compiling the register of creditors' claims, and holding the first meeting of creditors, and which is in effect from the moment the application is accepted for proceedings until the introduction of the next procedure.

Upon the institution of insolvency proceedings, the observation procedure is introduced automatically; that is, the date on which the court accepts the application for proceedings is deemed the commencement date of this procedure.

At the same time, the provision sets out an exception: where the law requires the application of another procedure, the observation procedure need not be introduced.

Article 30 of the Law establishes the insolvency procedures, according to which, in considering an insolvency case concerning a legal entity debtor, the procedures of observation, judicial rehabilitation, external management, and liquidation proceedings are applied.

The court ruling must contain a separate indication of the introduction of the observation procedure. This approach is of significant practical importance, since after acceptance of the application there is a risk of the debtor's assets being withdrawn, of preference being given to particular creditors, or of the structure of obligations being altered. The immediate introduction of the observation procedure serves to prevent these risks. In this sense, the provision is grounded in the principles of equality of creditors and preservation of assets.

The application of this provision within insolvency proceedings should be interpreted in conjunction with Article 46 of the Law. In particular, part three of Article 46 provides that, upon accepting the application for proceedings, the court may issue a ruling introducing the observation procedure and appointing a temporary manager.

At first glance, this provision appears to be discretionary; however, when interpreted systematically together with the said article, it becomes evident that the introduction of the observation procedure is mandatory in character. Unless the Law provides for another procedure, observation is deemed to be introduced automatically from the moment the application is accepted.

The reference in the provision to the possibility of issuing a ruling does not mean that the court is granted discretion; it relates solely to procedural formalization. That is, the court does not independently decide the question of introducing observation but rather reflects it in the ruling on acceptance of the application for proceedings.

This article, as a substantive-law provision, establishes the mandatory nature of introducing the observation procedure, whereas Article 46 provides for the procedural manner of formalizing this procedure.

In conclusion, it should be noted that this provision is an important rule which, in judicial practice, clearly determines the moment at which the observation procedure begins, introduces a special legal regime in respect of the debtor, and creates the legal basis for all subsequent stages.

At the same time, the article also contains a discretionary element providing for an exception. That is, in cases where, in accordance with the law, another insolvency procedure is to be applied, the observation procedure need not be introduced. As a rule, such cases relate to proceedings concerning natural persons, individual entrepreneurs, or simplified procedures. This is provided for by parts two and three of Article 30 of the Law and by part two of Article 242.

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53. In considering an insolvency case concerning a natural person, the procedures provided for by part two shall apply, and in the case of an individual entrepreneur—part three of Article 30 of the Law.

In addition, the Law provides for particular features of the observation procedure with respect to agricultural enterprises (Article 178 of the Law) as well as in considering insolvency cases concerning professional participants in the securities market (Article 189 of the Law).

Another important rule provided for by this provision is that the fact of introducing the observation procedure must, without exception, be stated in the court ruling on acceptance of the application for proceedings.

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14. While preparing an insolvency case for consideration at a court hearing, the judge must simultaneously decide the question of introducing the observation procedure (Articles 49 and 78 of the Law). The introduction of the observation procedure is stated in the court ruling on acceptance of the application for proceedings and institution of the insolvency case.

When an application for the institution of insolvency proceedings against a legal entity debtor possessing property is filed with the court, it shall indicate the candidate for temporary manager. If the application does not indicate a candidate for temporary manager, the court shall request the applicant, or the authorized state body or the public association of judicial managers, to put forward a suitable candidate.

The observation procedure is applied to a legal entity debtor from the moment the application for the institution of insolvency proceedings is accepted until the next procedure, for the purposes of safeguarding property, analyzing the debtor's financial condition, compiling the register of creditors' claims and holding the first meeting of creditors. The performance of these functions is entrusted to the temporary manager.

These rules do not apply to cases concerning the institution of insolvency proceedings against a natural person or an individual entrepreneur, or against a debtor under a simplified procedure.

In addition, the commencement date of the observation procedure is of decisive importance in the legal assessment of transactions concluded by the debtor and of payments made by it. For this reason, the precise statement of this circumstance in the court ruling serves to prevent possible disputes in the future.

See also: International Commentary, p. 751.

Article 79. Consequences of the Introduction of the Observation Procedure

From the moment the observation procedure is introduced:

the enforcement of enforcement documents in respect of pecuniary recoveries shall be suspended, except for the enforcement of enforcement documents issued on the basis of judicial acts on the recovery of wage arrears, the payment of remuneration under author's contracts, alimony, as well as compensation for harm caused to life or health and compensation for moral harm, which entered into legal force prior to the moment the court accepted for proceedings the application for the institution of insolvency proceedings. The

basis for suspending the enforcement of enforcement documents is the court ruling on acceptance of the application for proceedings and institution of the insolvency case;

the satisfaction of claims by the founders (participants) of a legal entity debtor for the separation of a share (unit) in the debtor's property in connection with their withdrawal from among its founders (participants) shall be prohibited;

the payment of dividends and other payments on issue-grade securities shall be prohibited.

Claims for the recovery of monetary funds from the debtor may be presented only in compliance with the procedure for presenting claims against the debtor established by Article 87 of this Law.

From the date on which the court introduces the observation procedure in respect of the debtor, the debtor's counterparty may not unilaterally refuse to perform or unilaterally alter contracts, even where this is permitted by the agreement of the parties.

In the event of a disagreement regarding the circumstances provided for in part three of this article, the counterparty's claim to alter or terminate the contract shall be considered by the court within the framework of the insolvency case.

The court may refuse to alter or terminate the contract where the debtor presents evidence that it will be able to perform the contract in the course of the insolvency proceedings (security for obligations provided by another creditor or a third party as provided for by civil legislation may be accepted as such evidence) and eliminates the delay in performing its obligations under the contract.

The court may postpone the holding of the meeting of creditors until the claim to alter or terminate the contract has been considered, where the consideration of such a question is of significant importance for the approval of the judicial rehabilitation plan and the debt repayment schedule or the external management plan.

The article being commented upon establishes certain restrictions and legal consequences applied to the debtor from the moment the observation procedure is introduced.

1. Under part one of the article being commented upon, from the moment the observation procedure is introduced, the enforcement of enforcement documents in respect of pecuniary recoveries is suspended. The basis for this is the court ruling on acceptance for proceedings of the application to declare the debtor bankrupt and on institution of the insolvency case. This is because pecuniary claims against the debtor may not be presented in the manner established by procedural legislation (for example, within the framework of claim proceedings or enforcement proceedings).

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11. In accordance with part one of Article 12 of the Law, when insolvency procedures are applied, the interests of all creditors are protected by the meeting of creditors or the committee of creditors, and from the day the court accepts for proceedings the application for the institution of insolvency proceedings against the debtor, creditors may not approach the debtor with a view to satisfying their claims on an individual basis, except for claims for the recognition of title, compensation for moral harm, recovery of property from another's unlawful possession, return of unjust enrichment, recognition of transactions as invalid and application of the consequences of their invalidity, application of measures of legal influence, as well as claims relating to current payments.

1.1. In accordance with paragraph 2 of part two of Article 34 of the Law of the Republic of Uzbekistan "On the Enforcement of Judicial Acts and Acts of Other Bodies," enforcement proceedings are subject to suspension by the state enforcement officer where the economic court institutes an insolvency case against the debtor, including where the economic court issues a ruling on the introduction of the observation, judicial rehabilitation or external management procedure and (or) on the extension of the periods for conducting them (except for enforcement documents which, in accordance with the law, are not subject to suspension). In addition, part two of Article 61 of the said Law provides that, where the economic court institutes an insolvency case against a legal entity debtor, enforcement proceedings and the realization of property subjected to recovery are suspended until the relevant question is considered on the merits by the economic court.

At the same time, the legislation provides for certain exceptions to the rule on the suspension of enforcement actions. In particular, enforcement documents relating to claims for the recovery of wages, alimony, remuneration under authors' contracts, as well as claims for compensation for harm caused to life and health, continue to be enforced. These exceptions are based on the principles of the protection of human rights and social justice and are aimed at securing the vital interests of citizens. It is established, moreover, that such claims are subject to enforcement only where they are based on judicial acts that entered into legal force prior to the institution of the insolvency case.

1.2. The prohibition on satisfying claims by the founders (participants) of a legal entity debtor for the separation of the shares belonging to them is another important safeguard provided for by this article.

In accordance with part one of Article 26 of the Law of the Republic of Uzbekistan "On Limited Liability Companies," a company may not adopt a decision on the distribution of profit among its participants if, at the moment such a decision

is adopted, the company meets the signs of insolvency established by legislation, or if such signs would arise as a result of adopting that decision. In accordance with part two of the said article, a company may also not pay participants profit whose distribution was previously approved if, at the moment of payment, the company meets the signs of insolvency established by legislation, or if such signs would arise as a result of making such a payment.

The satisfaction of such claims may lead to a reduction of the debtor's assets and a violation of creditors' interests. For this reason, the Law provides for a temporary restriction of corporate rights and relations in order to preserve economic balance and ensure the protection of creditors' rights.

1.3. In addition, the prohibition on the payment of dividends and other payments is aimed at preserving the debtor's financial assets. By not permitting the distribution of profit in conditions of insolvency, the legislator recognizes creditors' claims as taking priority over the interests of the company's participants (shareholders).

In accordance with part one of Article 54 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of Shareholders' Rights," a company may not adopt a decision on the payment of dividends on shares, nor make such payment, if at the moment of paying dividends the company meets the signs of insolvency or if such signs would arise as a result of paying the dividends.

2. Creditors' claims for the recovery of monetary funds from the debtor are subject to presentation in the manner provided for by Article 87 of the Law. This procedure includes such stages as the presentation of creditors' claims within the established periods, their substantiation by the relevant documents and verification by an authorized person. Only where the said requirements are complied with is a creditor's claim recognized as substantiated and entered into the register of creditors' claims. This ensures the equality of creditors, the satisfaction of their claims in accordance with the established order of priority, and also prevents particular creditors from obtaining unjustified advantages.

At the same time, this provision does not entirely restrict the rights of counterparties: they retain the right to present their claims as creditors within the insolvency procedure established by the Law. Such a mechanism ensures compliance with the principle of equality of creditors (*pari passu*) and a fair distribution of the debtor's assets.

3. From the moment the observation procedure is introduced in respect of the debtor, its counterparties may not unilaterally terminate or alter contracts, even where such a right is expressly provided for by the relevant contract.

In accordance with Article 237 of the CC of the Republic of Uzbekistan, unilateral refusal to perform an obligation and unilateral alteration of the terms of a contract are not permitted, except in cases provided for by legislation or by the contract.

This provision is a mandatory rule taking priority over those provisions of civil law that permit the possibility of unilateral termination of a contract.

4. In the event of a dispute regarding the alteration or termination of a contract, this question is considered by the court not by way of separate claim proceedings but within the framework of the insolvency case, in the manner provided for by Article 60 of the Law. Such a rule is aimed at centralizing the consideration of disputes and ensuring procedural economy by resolving them within a single court case. At the same time, this approach makes it possible to take comprehensive account of creditors' interests, since the fate of the contract may affect the entire insolvency process.

5. If the debtor proves that it is possible to perform the contract or to eliminate the delay that has occurred, the court may refuse to satisfy the counterparty's claim. The evidence presented by the debtor may include information on the possibility of financial recovery, the securing of the performance of obligations by third parties, as well as the possibility of refinancing the debt.

6. This provision governs cases where a dispute over a contract is of significant importance for the subsequent stages of the insolvency case—in particular, for the approval of the judicial rehabilitation plan or external management. In such cases, the court may postpone the holding of the meeting of creditors until the question of the fate of the relevant contract has been resolved. In this way, the legislator seeks to ensure compliance with the principles of economic expediency and the soundness of the decisions adopted.

In practice, this manifests itself as follows: if the debtor's core activity depends on a particular major contract (for example, a contract for the supply of raw materials), the preservation or termination of such a contract may determine the further fate of the entire enterprise. For this reason, the court first resolves the question of the fate of this contract and only thereafter submits to the meeting of creditors the question of applying a subsequent insolvency procedure.

See also: International Commentary, p. 752.

Article 80. Mutual Settlement of Claims

The discharge of the debtor's monetary obligations through the mutual settlement of an alternative counterclaim, except in the case provided for by part eight of this article, is permitted only where:

the claims of the debtor and the creditor under monetary obligations arose prior to the commencement of the insolvency proceedings;

the monetary obligations of the debtor and the creditor arose as a result of transactions concluded prior to the commencement of the insolvency proceedings, and the period for claiming these obligations fell due after the commencement of the insolvency proceedings, or the term and time at which the claim falls due are not specified.

The provisions of Articles 150 and 185 of this Law are not taken into account in considering mutual claims. Obligations are deemed discharged once one of the parties has declared this, starting from the entry into force of the parties'

counterclaims within the period from the day they correspond—that is, from the moment the term for performing the obligation expires—irrespective of whether an application for payment has been received or accepted.

The discharge of the debtor's monetary obligations through the mutual settlement of an alternative counterclaim is not permitted where:

the claims of the debtor (or against the debtor) under monetary obligations arose after the institution of the insolvency case, if this would lead to a violation of creditors' rights;

the claims of the debtor (or against the debtor) under monetary obligations were acquired in bad faith prior to the institution of the insolvency case. If the acquirer of the right of claim knew or ought to have known that the debtor had developed signs of insolvency yet acquired this right, it is presumed that the right was acquired in bad faith. Otherwise, the burden of proving the fact rests with the acquirer of the right of claim.

If claims became mutual as a result of a change of person in the obligation, the time of their arising may not be earlier than the date of such change.

A declaration of an alternative counterclaim by way of mutual settlement may be filed by the creditor, the debtor or the liquidation manager.

Disputes concerning the discharge of monetary obligations through the mutual settlement of the debtor's alternative counterclaim are considered by the court in the manner provided for by Article 60 of this Law.

Where the conditions for mutual settlements arose within six months prior to the institution of the insolvency case, the mutual settlement may be challenged solely in the event of bad-faith conduct on the part of the creditor.

If the acquisition of the debtor's claims at a price substantially below their value, as well as the assumption of a person's obligations (including through the transfer of debt) without reasonable monetary consideration, subsequently became a cause of the institution of the insolvency case against the debtor, this may serve as evidence of the creditor's bad faith.

The article being commented upon establishes the possibility of and restrictions on the discharge of monetary obligations between the debtor and the creditor in an insolvency case through the set-off of homogeneous counterclaims. This provision directly corresponds to the rules of Articles 343–345 of the CC of the Republic of Uzbekistan.

1. Under part one of the article being commented upon, the discharge of obligations through the set-off of counterclaims is, as a rule, permitted only where certain conditions are present.

1.1. The first principal condition is that the monetary obligations of the debtor and the creditor must arise prior to the institution of the insolvency proceedings. This rule is aimed at preventing artificial set-offs in the course of the insolvency procedure and precluding particular creditors from obtaining unjustified advantages over other creditors.

1.2. The second condition is that obligations may arise from transactions concluded prior to the institution of the insolvency proceedings, even if the term for

their performance falls due later. In this regard, the legislator treats the moment at which the legal relationship arose, rather than the term for performing the obligation, as the determining date. Consequently, if the legal basis arose earlier, the subsequent falling due of the term for performance may not serve as a ground for refusing to carry out the set-off. Such an approach is consistent with the principles of legal certainty and freedom of contract.

2. The provision also contains an important rule to the effect that, when a set-off of counterclaims is carried out, certain general rules of civil legislation (Articles 150 and 185 of the Law) do not apply. This is due to the special legal nature of the relations arising within the insolvency procedure. In other words, in insolvency proceedings priority is given not to general civil-law rules but to a special legal regime aimed at protecting creditors' interests.

2.1. Under a rule of significant practical importance, if one of the parties has declared a set-off, the counterclaims are deemed discharged from the moment they became mutually corresponding to each other — that is, from the moment the term for performing the obligation fell due. It is immaterial whether the relevant declaration was filed or accepted for consideration. This provision has a so-called *"retroactive effect,"* since the moment at which the counterclaims coincided is recognized as legally significant.

3. At the same time, the Law establishes strict restrictions on this institution and provides for cases in which the set-off of counterclaims is entirely impermissible. In particular, a set-off is not permitted if the claims arose after the institution of the insolvency proceedings and their set-off may lead to a violation of the rights of other creditors. This rule is aimed at protecting the principles of "order of priority and equality" of creditors in the insolvency procedure.

In addition, a set-off is not permitted in the case of bad-faith acquisition of claims—that is, where the creditor acquired the claim while knowing or being obliged to know of the debtor's insolvency. In this regard, the Law treats the principle of "good faith" as the principal criterion for assessing the creditor's conduct. If the creditor, exploiting the debtor's difficult financial position, sought to place itself in a preferential position relative to other creditors, such actions are not subject to legal protection.

4. The transfer of rights and obligations in an obligation from one person to another, whereby counterclaims become eligible for set-off, must not be treated as a circumstance permitting claims to be artificially attributed to an earlier period. This rule precludes the fictitious "aging" of claims and the unlawful discharge of obligations through their set-off.

5. The provision also defines a procedural aspect: a declaration of set-off of counterclaims may be filed by the creditor, the debtor, or the judicial manager. This indicates that the initiative on this matter does not belong exclusively to one party.

6. In accordance with this provision, disputes relating to the discharge of the debtor's monetary obligations through the set-off of counterclaims are considered

not by way of general claim proceedings but within the framework of the insolvency case. This is directly connected with Article 60 of the Law, according to which applications, complaints and disagreements in an insolvency case are considered by the court in a special manner, and a ruling is issued thereon.

On this basis, it may be concluded that a dispute concerning the set-off of counterclaims is resolved directly within the insolvency case itself, in a single procedural order and under judicial control. This makes it possible to assess comprehensively the lawfulness of the set-off, its effect on the interests of other creditors, and its conformity with the insolvency procedure.

7. The Law also establishes another important restriction: if the circumstances serving as the ground for the set-off of counterclaims arose within six months prior to the institution of the case, such a set-off may be challenged only where there has been bad-faith conduct on the part of the creditor. This provision reflects the concept of the "suspect period" and indicates the special attention given to transactions carried out specifically within this period of time.

8. In addition, it is established that cases of acquiring claims at an understated price or of assuming obligations without reasonable monetary consideration, which led the debtor into insolvency, may be treated as evidence of the creditor's bad faith. This rule is aimed at restricting economic manipulation and preventing the artificial creation of a state of insolvency.

See also: International Commentary, p. 753.

Article 81. Restriction of the Debtor's Rights During the Observation Procedure

The introduction of the observation procedure is not a ground for removing the debtor's manager and the debtor's other management bodies, which continue to exercise their powers subject to the restrictions established by parts two and three of this article.

The debtor's management bodies may, exclusively with the written consent of the temporary manager, conclude:

transactions relating to the lease or pledge of immovable property or to the disposal of such property in any other manner;

major transactions;

transactions relating to the receipt and issuance of loans (credits), the issuance of sureties and guarantees, the assignment of rights of claim, the transfer of debt, as well as the conclusion of a contract for the trust management of the debtor's property.

The debtor's management bodies may not adopt decisions:

on the reorganization (merger, accession, division, discharge, transformation) and liquidation of the debtor;

on the creation of legal entities or on participation in other legal entities;

on the opening of representative offices and the creation of branches;

on the payment of dividends or the distribution of the debtor's income (profit) among its founders (participants);

on the placement by the debtor of bonds and other issue-grade securities, except for a decision on the issuance of shares;

on the acquisition from shareholders of previously issued shares.

The article being commented upon determines the legal regime under which the debtor's management system operates after the introduction of the observation procedure, the cases in which the powers of its manager and management bodies are retained, as well as the situations in which those powers are restricted.

1. Under part one of this article, the introduction of the observation procedure is not a ground for removing the debtor's manager or the debtor's other management bodies, which continue to exercise their powers within the restrictions established by parts two and three of the article. It follows that the observation procedure is not among the stages involving radical intervention in the debtor's management system, such as judicial rehabilitation, external management, or liquidation. Its task is not to terminate the debtor's activity but to observe and monitor it, to assess its financial condition, and to gather the information necessary for choosing the subsequent procedure. Therefore, the Law does not provide for the removal of the manager and management bodies as a general rule.

If, immediately after the introduction of the observation procedure, the debtor's manager and management bodies were entirely removed, this could lead to disruption of the enterprise's ongoing activity, breakdowns in contractual relations, and a halt to the production or service process. At the same time, the Law does not leave their powers entirely unrestricted. On the contrary, the subsequent parts of this article establish substantial restrictions. Thus, the provision sets out a balance between preserving managerial leadership and strengthening control.

2. Part two of this article determines which transactions the debtor's management bodies may conclude only with the written consent of the temporary manager. In doing so, the Law first and foremost establishes control over transactions that substantially affect the debtor's property position and may reduce its assets or increase its obligations.

2.1. In particular, such restrictions cover transactions relating to the lease, pledge, or other disposal of immovable property. Since immovable property, as a rule, constitutes the most significant part of the debtor's assets, allowing the manager to dispose of it freely during the observation procedure could lead to a reduction of the source for satisfying creditors' claims.

2.2. Major transactions are likewise subject to conclusion only with the written consent of the temporary manager. In accordance with part three of Article 118 of the Law, major transactions are those entailing the alienation of the debtor's immovable property or other property whose balance-sheet value at the moment the transaction is concluded amounts to more than ten percent of the balance-sheet value of the debtor's assets. In this regard, by means of the concept of a "major transaction," the Law restricts operations that may substantially affect the volume of

the debtor's assets or obligations. From a practical standpoint, this is important, since in conditions of insolvency individual managers may attempt to swiftly withdraw assets, sell them below market value, or carry out major property operations in favor of affiliated persons. The requirement of the temporary manager's written consent is aimed at preventing such actions and performs a preventive procedural function.

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32. Courts should bear in mind that the Law provides for the possibility of challenging major transactions, as well as transactions in which there is an interest, concluded without the consent of the judicial manager, the meeting of creditors or the committee of creditors.

In this regard, major transactions are those entailing the disposal of the debtor's immovable property or other property whose balance-sheet value at the moment the transaction is concluded exceeds ten percent of the balance-sheet value of the debtor's assets.

Transactions in which there is an interest are recognized as transactions a party to which is a person interested in relation to the external manager or the creditor (part three and four of Article 118 of the Law).

2.3. In addition, the following transactions are subject to control: the receipt and provision of loans and credits, the issuance of letters of guarantee and sureties, the assignment of a right of claim in favor of another person, the transfer of debt to another person, as well as the conclusion of trust-management contracts. The unifying legal feature of all these transactions is that they alter the structure of the debtor's obligations, substantially affect its property position, or may lead to control over assets being transferred to other persons. Therefore, the Law characterizes them not as ordinary current business operations but as transactions directly affecting creditors' interests.

The requirement of the temporary manager's written consent is of special significance: on the one hand, it ensures genuine control, and on the other, it makes it possible, should a dispute arise, to establish reliably the fact that consent was or was not given. From a practical standpoint, this rule ensures transparency and the documentary recording of relations between the temporary manager and the debtor's management. Thus, the provision introduces not merely a consultative procedure but a mechanism of prior, legally significant control.

3. Part three of this article determines which decisions the debtor's management bodies may not adopt at all. In this regard, the Law applies a stricter form of restriction. Whereas under part two of this article certain transactions may be concluded with the consent of the temporary manager, under part three the decisions listed are entirely prohibited from being adopted. Such an approach indicates that the

legislator singles out separately those decisions which are of special importance for the fate of the debtor and the interests of creditors.

3.1. In particular, it is prohibited to adopt decisions on the reorganization or liquidation of the debtor. This rule is entirely well-founded, since during the observation procedure the further fate of the debtor has not yet been determined by the court and the meeting of creditors. If, during this period, the management or the founders were to adopt a decision on reorganization or liquidation on their own, this could be regarded as an attempt to circumvent the special judicial insolvency procedure, to violate creditors' interests, and to redistribute the debtor's property.

3.2. The prohibition on adopting decisions on the creation of legal entities or on participation in other legal entities is likewise based on this logic. In conditions of insolvency, the debtor may, instead of resolving its existing financial problems, enter into new corporate structures, withdraw assets into new legal entities, or otherwise redistribute property interests. This leads to a reduction of the property mass available to creditors. Therefore, the Law prohibits such actions relating to corporate expansion or restructuring, in order to preserve the debtor's assets.

3.3. The prohibition on adopting decisions on the opening of representative offices and branches is likewise explained in a similar manner. Although such decisions formally relate to organizational matters, in practice they may increase costs, create new property obligations, or permit assets to be moved to other regions. In conditions of insolvency, the principal task of the legislation is not to create new risks but to preserve the existing property position and to ensure transparent control.

3.4. The prohibition on adopting a decision on the payment of dividends or the distribution of profit among the founders is one of the most important restrictions from the standpoint of protecting creditors' rights. This is because the property of a debtor in a state of insolvency primarily serves as a source for satisfying creditors' claims. If, in such a situation, the founders or participants were to distribute the profit among themselves, this would be a manifest violation of creditors' interests. Therefore, the Law entirely prohibits the distribution of corporate profit and gives priority and importance to preserving the debtor's property mass.

In accordance with part one of Article 54 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of Shareholders' Rights," if at the moment of paying dividends the company has signs of insolvency, or if such signs would arise as a result of paying dividends, the company may not adopt a decision on the payment of dividends on shares, nor make such payment.

3.5. The prohibition on the debtor adopting a decision on the placement of bonds and other issue-grade securities is likewise logically well-founded. This is because such actions alter the structure of the debtor's financial obligations, form a new circle of investors or creditors, and may affect the interests of already existing creditors. Although the law provides, by way of exception, for the possibility of adopting a decision on the issuance of shares, the general rule is that, during the observation

procedure, the active expansion of the debtor's activity in the financial market and the securities market is not permitted.

In accordance with part one of Article 38 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of Shareholders' Rights," if at the moment of acquiring ordinary shares the company has signs of insolvency, or if such signs arise as a result of acquiring these shares, the company may not acquire the ordinary shares it has placed.

3.6. The prohibition on adopting a decision on the buyback of previously issued shares from shareholders is likewise aimed at protecting creditors' interests. Through such actions, the debtor may expend its monetary funds in favor of the corporation's participants, thereby reducing the volume of assets that could be used to satisfy creditors' claims. In this situation as well, the Law gives priority not to the interests of shareholders but to the interests of creditors.

See also: International Commentary, p. 753.

Article 82. Appointment of the Temporary Manager

The temporary manager is appointed by the court from among the candidates put forward by the creditors or by the authorized state body or the public association of judicial managers.

The court ruling on the appointment of the temporary manager must specify the amount and the procedure for paying the manager's remuneration.

The amount of the temporary manager's remuneration may be changed by the court on the basis of a decision of the meeting of creditors.

The temporary manager may apply to the court with an application to be relieved of the performance of its duties.

Where the temporary manager's petition to be relieved of the performance of its duties is granted, the court appoints a new temporary manager from among the candidates put forward by the creditors. Where no candidate for temporary manager has been put forward, the court appoints a temporary manager from among the candidates put forward by the authorized state body or the public association of judicial managers. Until a new temporary manager is appointed, the temporary manager continues to perform its duties.

The article being commented upon determines the procedure for appointing the temporary manager, who is the principal participant in the observation procedure, the procedure for paying the manager's remuneration, the grounds and procedure for relieving the manager of its duties, as well as the mechanism for appointing a new temporary manager.

1. The legal status of the temporary manager is determined by the requirements established by the Law for all judicial managers.

In accordance with the definition contained in Article 3 of the Law, a judicial manager (temporary manager, rehabilitation manager, external manager, liquidation

manager, financial manager) is a person appointed by the court to conduct insolvency procedures.

In accordance with part one of the article being commented upon, the temporary manager is appointed by the court from among the candidates put forward by the creditors, the authorized state body, or the public association of judicial managers.

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14. When an application for the institution of insolvency proceedings against a legal entity debtor possessing property is filed with the court, it shall indicate the candidate for temporary manager. If the application does not indicate a candidate for temporary manager, the court shall request the applicant, or the authorized state body or the public association of judicial managers, to put forward a suitable candidate.

It follows from this rule that, in appointing the temporary manager, the participation of several entities is provided for, each of which represents particular interests and performs corresponding functions. Creditors, first and foremost, as the persons most interested in the outcome of the case, are entitled to express their position regarding the candidate for temporary manager. The participation of the authorized state body is aimed at ensuring a certain level of state control over insolvency procedures, at compliance with the requirements of legislation, and at confirming the professional suitability of the candidate. The possibility of putting forward a candidate for judicial manager through a public association, in turn, promotes the introduction of elements of professional self-regulation in this sphere.

However, of particular significance is the fact that, notwithstanding the right of the said entities to put forward a candidate, the power of appointment belongs entirely to the court. This means that the legal status of the temporary manager is not reduced merely to that of a trusted representative of the creditors or of a candidate put forward by a state body. On the contrary, the manager is an independent participant in the proceedings, drawn into the case by decision of the court.

In accordance with paragraph 33 of the Regulation "On the Procedure for Issuing a Qualification Certificate to Judicial Managers" (Annex No. 4), approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 838 of 30 December 2025, activity as a judicial manager is carried out on the basis of a certificate issued by the authorized organization in one of the following four categories:

a first-category certificate—for carrying out the procedures of observation, judicial rehabilitation, external management, liquidation proceedings, the simplified

insolvency procedure, as well as the procedures of debt restructuring and realization of the property of a natural person;

a second-category certificate—for carrying out the procedures of observation, judicial rehabilitation, liquidation proceedings, the simplified insolvency procedure, as well as the procedures of debt restructuring and realization of the property of a natural person;

a third-category certificate—for carrying out the procedures of observation, liquidation proceedings, the simplified insolvency procedure, as well as the procedures of debt restructuring and realization of the property of a natural person;

a fourth-category certificate—for carrying out the simplified insolvency procedure for legal entities, as well as the procedures of debt restructuring and realization of the property of a natural person.

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17. In accordance with parts one and two of Article 22 of the Law, persons who have higher education, work experience of not less than two years and who have passed certification at the authorized state body, as well as advocates meeting the said requirements and holding a license with a specialization in the conduct of civil and economic court cases, may be appointed judicial managers.

The authorized state body maintains a unified register of judicial managers and submits information from it to the Supreme Court of the Republic of Uzbekistan in electronic form by means of interdepartmental information exchange.

In resolving the question of appointing a judicial manager, the court must obtain information on the certificate from the unified register and attach it to the case file.

18. The following may not be appointed judicial managers: persons interested in relation to the debtor or the creditors; persons with an unexpunged or unspent criminal record; persons declared by a court to lack legal capacity; individual entrepreneurs or natural persons against whom an insolvency procedure has been introduced; persons who, while previously performing the duties of a judicial manager, caused harm to the debtor or the creditors and have not compensated for the said harm; persons whose judicial manager's certificate has been terminated (annulled) and (or) temporarily suspended (for the period of temporary suspension) by decision of the authorized state body; persons in respect of whom there are restrictions on carrying out activity in the management of the affairs and (or) property of other persons (persons deprived of the right to engage in such activity).

On the said grounds, the court must refuse to appoint the candidate put forward to the position of judicial manager or relieve the judicial manager of the performance of its duties.

Courts should note that persons interested in relation to the debtor and the creditors are understood to be the persons specified in Article 21 of the Law.

Thus, the task of the court consists of verifying the conformity of the candidate put forward for temporary manager with the established requirements, conducting

the selection, and preventing possible abuses on the part of the persons who put forward that candidate.

2. In accordance with this provision, the court ruling on the appointment of the temporary manager must specify the amount of the manager's remuneration and the procedure for its payment. In this regard, in accordance with part ten of Article 26 of the Law, the additional remuneration in the case under consideration may not exceed half of the total sum paid to the judicial manager in that case. This rule means that the activity of the temporary manager is of a professional, remunerated character and must be ensured by financial remuneration that is clearly defined in legal terms. The temporary manager in an insolvency case performs a significant volume of organizational, analytical, and legal functions. The manager studies the debtor's financial condition, participates in the process of accepting and considering creditors' claims, organizes the first meeting of creditors and exercises control over the debtor's property condition. Therefore, ensuring payment for the manager's work in a clearly established and predetermined manner is lawful and well founded.

This is of particularly significant importance since, for the independent and effective performance of its duties, the question of the temporary manager's remuneration must not remain uncertain. Consequently, this provision governs not only the procedural status of the temporary manager but also the questions of its material support, which is under judicial control.

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22. The amount and procedure for paying remuneration to a judicial manager are established by the meeting of creditors and approved by a ruling or decision of the court, except in the cases provided for by parts two, four and five of Article 26 of the Law.

In determining the amount of a judicial manager's remuneration, account must be taken of the value of the debtor's property and the volume of work to be performed by the manager.

By decision of the meeting of creditors, a judicial manager may be granted additional remuneration based on the results of its activity, in the cases and in the amount established by the Law.

The remuneration and additional remuneration of a judicial manager are reimbursed out of the debtor's property, unless otherwise provided for by an agreement with the creditors.

Courts should bear in mind that, in accordance with part three of Article 59 of the Law, where the court adopts a decision refusing to declare the debtor bankrupt owing to a failure to establish signs of insolvency, the court costs—including the costs of the state duty whose payment was deferred or paid in installments, the costs of publishing in the mass media the information provided for by Articles 53 and 54 of the Law, and the costs of paying remuneration to

judicial managers—are charged to the creditors who applied to the court with the application for the institution of insolvency proceedings against the debtor and are distributed among them in proportion to their claims.

This rule also applies where the debtor has no property, or where its property is insufficient to cover the said costs.

3. Part three of the article being commented upon provides that the amount of the temporary manager's remuneration may be changed by the court on the basis of a decision of the meeting of creditors. This provision indicates that, in determining the temporary manager's remuneration, account is taken of both judicial control and the will of the creditors. It is not by chance that the meeting of creditors participates in resolving this question, since it is precisely the creditors who are the principal interested persons who, in practice, assess the effectiveness of the temporary manager's activity, the volume of work performed by the manager, and the complexity of the tasks accomplished. Therefore, their decision is treated as a material factor in changing the amount of remuneration.

At the same time, the decision of the creditors alone is not sufficient: it serves merely as a ground for the court to consider the question of changing the amount of remuneration. This ensures the necessary balance of interests. If the resolution of this question depended entirely on the discretion of the creditors, there would be a risk of an effect on the independence of the temporary manager. In certain cases, the creditors could use the question of paying remuneration as a means of exerting pressure on the manager. The preservation of judicial control makes it possible to ensure the lawfulness and fairness of this process.

Disputes relating to the payment of remuneration to the temporary manager are considered by the court in the manner provided for by Article 60 of the Law.

4. In accordance with this provision, the temporary manager may apply to the court with an application to be relieved of the performance of its duties. This provision means that the procedural status of the temporary manager is not mandatory and unconditionally immutable: where certain circumstances are present, the manager also has the right to petition to be relieved of the performance of the functions entrusted to it. This rule is consistent with the principles of personal freedom, professional independence, and procedural fairness. In particular, in certain situations the temporary manager may develop a conflict of interest, may suffer a deterioration in health, or other objective circumstances may arise that impede the further performance of its duties. In such conditions, compulsorily retaining the manager in office could have a negative effect both on the effectiveness of the procedure and on its lawfulness.

At the same time, for the temporary manager to be relieved of the performance of its duties, it is not sufficient for the manager itself to consider itself relieved of office. This question is also subject to resolution by the court. Consequently, the manager's application is a legally significant initiative, but the final decision is taken

by the court. This rule is of significant importance from the standpoint of procedural stability, since otherwise, the temporary manager could at any moment cease performing its duties, which would lead to a managerial vacuum in the case.

5. Part five of the article being commented upon establishes the procedure for appointing a new temporary manager where a petition to relieve the temporary manager of the performance of its duties is granted. In accordance with this provision, the court appoints a new temporary manager, first and foremost, from among the candidates put forward by the creditors. In this way, the Law preserves the priority role of the creditors as the participants most interested in the procedure. If the creditors have not put forward a candidate, the court appoints a temporary manager from among the candidates put forward by the authorized state body or the public association of judicial managers. Consequently, the Law provides for a certain sequence and system of sources for putting forward candidates in appointing a new temporary manager: first, the proposals of the creditors are taken into account, and thereafter those of the authorized state body and the professional association.

The practical significance of this mechanism lies in the fact that, when the temporary manager is replaced, the procedure must not halt, and the search for an authorized person must not lead to a protraction of the process. By establishing a broad circle of entities entitled to put forward candidates, the Law prevents the emergence of a managerial vacuum. This is particularly important in insolvency cases, since, over time, the value of the debtor's property may decrease, documents may be lost, and other circumstances may arise that could harm the interests of the creditors.

In accordance with the last sentence of the article being commented upon, the temporary manager continues to perform its duties until a new temporary manager is appointed. This provision is an important safeguard of procedural continuity. Even where the temporary manager's petition to be relieved of the performance of its duties is granted, a certain transitional period may exist between the moment of the manager's relief and the official appointment of a new temporary manager. If, during this interval, there is no authorized person, such matters as safeguarding the debtor's property, controlling documentation, coordinating actions relating to the creditors, and other measures carried out within the insolvency procedure could be left without proper control. In order to prevent such risks, the Law preserves the powers of the former temporary manager until the moment a new one is appointed.

On the whole, the article being commented upon enshrines the central role of the temporary manager in an insolvency case, providing legal safeguards for the manager's independence and professional status while at the same time combining them with regard for the will of the creditors and judicial control. In this sense, this article serves as an important legal rule ensuring the effective functioning of the institution of the temporary manager, the orderly conduct of the observation procedure and the organizational stability necessary for the transition to the subsequent procedures provided for by insolvency legislation.

Article 83. Rights of the Temporary Manager

The temporary manager has the right:

to present to the court, in its own name, claims for the recognition of transactions as invalid, as well as for the application of the consequences of the invalidity of void transactions concluded or performed by the debtor in violation of the requirements established by legislation;

to raise objections to the satisfaction of creditors' claims during the observation procedure in the cases provided for by Article 79 of this Law;

to take part when the judge verifies the soundness of the objections presented by the debtor regarding creditors' claims;

to apply to the court with a petition for the adoption of additional measures to safeguard the debtor's property, including a prohibition on concluding, without the consent of the temporary manager, transactions not provided for by Article 81 of this Law, on transferring property for safekeeping to third parties, as well as on the cancellation of such measures;

to apply to the court with a petition to remove the debtor's manager from the performance of its duties;

to obtain any information and documents relating to the debtor's activity.

The temporary manager may also have other rights in accordance with legislation.

The debtor's management bodies are obliged to provide the temporary manager, upon its request, with any information relating to the debtor's activity.

The article being commented upon determines the procedural and organizational rights of the temporary manager in the observation procedure.

1. The rights provided for by this article enable the temporary manager to exercise genuine and effective control in the course of the observation procedure and contribute to the lawful, objective and fair resolution of the insolvency case.

1.1. The temporary manager has the right, in its own name, to apply to the court with claims for the recognition of transactions as invalid, as well as for the application of the consequences of the invalidity of void transactions that were concluded or performed by the debtor in violation of the requirements established by legislation.

In accordance with Article 113 of the CC, a transaction is invalid either by virtue of being recognized as such by a court on the grounds provided for by this Code and other laws (a voidable transaction) or irrespective of such recognition (a void transaction).

A claim for the recognition of a voidable transaction as invalid may be presented by the persons specified in this Code.

A claim for the application of the consequences of the invalidity of a void transaction may be presented by any interested person. The court may apply such consequences on its own initiative.

In conditions of insolvency, particular transactions previously concluded or performed by the debtor may run counter to creditors' interests, may be aimed at withdrawing assets, may be of a fictitious nature or may create a preference for particular creditors. If such transactions are not challenged in good time, the debtor's estate may shrink, which would lead to a reduction of the possibilities for satisfying creditors' claims. In this connection, the Law grants the temporary manager the right to present claims independently, thereby ensuring genuine protection of creditors' interests.

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32. In addition to the grounds provided for by the Civil Code of the Republic of Uzbekistan (hereinafter—the CC), transactions may also be recognized as invalid by a court on the grounds established by Articles 63–66, part two of Article 120, part seven of Article 140, Article 169, part five of Article 219 and part one part one of Article 231 of the Law.

The right to file a claim for the recognition of a transaction concluded by the debtor (whether voidable or void) as invalid and (or) for the application of the consequences of its invalidity is held by the judicial manager, creditors whose claims are included in the register of creditors' claims, and other persons whose rights or legitimate interests are violated or affected by such a transaction.

The limitation period for such claims is calculated from the day on which the said persons learned or ought to have learned of the existence of grounds for recognizing the transaction as invalid.

Claims for the recognition as invalid of transactions concluded by the debtor are subject to consideration outside the framework of the insolvency case, in compliance with the general rules on the jurisdiction and venue of cases established by procedural legislation.

Under the rules of Article 63 of the Law, transactions may be recognized as invalid if they were concluded by the debtor or its representative within three years prior to the institution of the insolvency case, unless otherwise provided for by the Law. The said transactions may also be challenged after the introduction of insolvency procedures.

A transaction concluded by a legal entity debtor after the institution of the insolvency case, or within the thirty-six months preceding the filing of the application for the institution of insolvency proceedings, and relating to the payment (separation) of a share in property to a participant of the debtor in connection with that participant's withdrawal from among the debtor's participants, may likewise be recognized as invalid by a court.

1.2. The temporary manager has the right, in the cases provided for by Article 79 of the Law, to raise objections to the satisfaction of creditors' claims during the observation procedure. This right is of significant importance from the standpoint of

ensuring the equality of creditors. In the course of insolvency, attempts may be made to satisfy the claims of some creditors preferentially relative to others. The temporary manager's right to object to such actions is aimed precisely at preventing such risks. The practical content of this power lies in the fact that the temporary manager gives a legal assessment of the lawfulness of claims, the order of priority of their satisfaction, as well as the possibility or impossibility of making particular payments during the observation procedure. If the manager reaches the conclusion that making a payment in favor of a particular creditor violates the rights of other creditors, it has the right to raise the relevant objection with the court or in another established manner. Thus, this power is an important procedural instrument for protecting the principle of equality of creditors and maintaining parity of their rights in the insolvency procedure.

1.3. It is established that the temporary manager has the right to participate when the judge verifies the soundness of the objections presented by the debtor regarding creditors' claims.

Part three of Article 49 of the Law establishes that, where there are objections on the part of the debtor, the temporary manager, or the state tax service body or another authorized body regarding creditors' claims, the judge verifies the soundness of such objections. Part four provides that the judge's verification of the soundness of the objections of the debtor, the temporary manager, or the state tax service body or another authorized body must be carried out not later than one month before the expiry of the established period for considering the insolvency case. Part five establishes that, based on the results of considering the soundness of the objections of the debtor, the temporary manager, or the state tax service body, or another authorized body, the court issues a ruling on the inclusion of creditors' claims in the register of creditors' claims or on the refusal to include them in the register. The ruling specifies the amount of the creditors' claims and the order of priority of their satisfaction, where the objections regarding these claims are recognized as unfounded.

This rule means that, in compiling the register of creditors' claims, decisive importance attaches to the validity, amount, and legal basis of each claim. This right is one of the important safeguards of the correct and fair compilation of the register.

1.4. The temporary manager is granted the right to apply to the court with a petition for the adoption of additional measures to safeguard the debtor's property. In this regard, the Law provides for a power that is very broad in content and of significant practical importance. In particular, the temporary manager has the right to apply to the court with a request to prohibit the conclusion of transactions that are not provided for by Article 81 of the Law without the temporary manager's consent, to transfer property for safekeeping to third parties or, conversely, to cancel previously adopted interim measures. This provision means that the restrictions established by Article 81 of the Law may not cover all possible situations, and

depending on the specific circumstances of the case, the need may arise to apply additional measures to protect the debtor's property.

1.5. The temporary manager is also granted the right to apply to the court with a petition to remove the debtor's manager from the performance of its duties. This power is of special significance, since, in accordance with Article 81 of the Law, the introduction of the observation procedure is not a ground for the automatic removal of the manager. However, in certain cases, the manager's actions may substantially impede the preservation of property, the presentation of documents, the exercise of control over the debtor's activity or the protection of creditors' interests. In such a situation, the temporary manager has the right to put before the court the question of removing the manager. In this regard, an important balance is preserved: the temporary manager may not remove the manager on its own but merely applies to the court. Consequently, such a measure is applied under judicial control and only where there are sufficient grounds. This makes it possible simultaneously to ensure the protection of creditors' interests and to prevent an unjustified restriction of the manager's rights.

1.6. Under another important provision of this article, the temporary manager has the right to obtain any information and documents relating to the debtor's activity. This is the principal instrument for exercising all of the manager's other powers. Without such information and documents, it is impossible to conduct a financial analysis, give a legal assessment of transactions, take measures to preserve property, as well as study creditors' claims comprehensively. Thus, this right enables the manager to assess the debtor's financial condition objectively, to identify signs of insolvency, and to take measures to preserve the property mass.

2. Part two of the Article states that the temporary manager may also have other rights provided for by legislation. Since the temporary manager has the status of a judicial manager, the rights of a judicial manager in an insolvency case provided for by Article 23 of the Law also apply to it.

3. The debtor's management bodies are obliged, upon the request of the temporary manager, to provide it with any information relating to the debtor's activity. This provision is of great practical importance, since in insolvency cases the management not infrequently attempts to impede control by concealing documents, delaying their provision or not handing them over in full. The Law, in order to prevent such actions, establishes the mandatory character of the temporary manager's requests.

See also: International Commentary, p. 754.

Article 84. Duties of the Temporary Manager

The temporary manager is obliged:
to take measures to safeguard the debtor's property;
to analyze the debtor's financial condition;
to identify the debtor's creditors and maintain the register of creditors' claims, and to notify creditors of the introduction of the observation procedure in respect of the debtor;
to provide, within a ten-day period, information on the debtor's financial condition and (or) on its own activity at the request of a creditor;
to convene and hold the first meeting of creditors.
The temporary manager may also bear other duties in accordance with legislation.
Upon the conclusion of the observation procedure, but not later than five days before the established date of the court hearing, the temporary manager is obliged to submit to the court a report on its activity, information on the debtor's financial condition and proposals on the possibility or impossibility of restoring the debtor's solvency, as well as the minutes of the first meeting of creditors together with the documents provided for by Article 16 of this Law.

The article being commented upon establishes the principal tasks and duties of the temporary manager in the observation procedure.

1. The duties of the temporary manager are aimed at ensuring the lawfulness and effectiveness of the entire process by preserving the debtor's property, protecting creditors' rights, objectively assessing the financial condition, and submitting well-founded proposals to the court. The duties of the temporary manager are directly connected with its rights.

1.1. The duties of the temporary manager are manifested as follows:

first, the duty to take measures to safeguard the debtor's property is its foremost task. This concerns preventing the risks of concealment, sale, transfer to other persons or reduction in the value of property. In practice, this is expressed in conducting an inventory, verifying documents, and controlling the movement of assets.

second, the duty to analyze the debtor's financial condition is not limited to examining the accounting records. Here, an assessment is made of the debtor's assets and liabilities, accounts receivable and accounts payable, solvency, level of liquidity, the causes of losses, and the possibility of restoring solvency. It is precisely this analysis that leads to the key conclusions determining the outcome of the case.

third, the duty to identify creditors and maintain the register of claims is aimed at ensuring the equality of all creditors. The register records who are presenting claims, in what amount and on what basis. In practice, it is precisely at this stage that disputes most frequently arise regarding the soundness, amount and order of priority of claims.

fourth, the duty to notify creditors of the introduction of the observation procedure ensures procedural fairness. A creditor must be informed of the institution of the case and the introduction of the relevant procedure in order to exercise its rights. The absence of notification may deprive a creditor of the possibility of presenting claims in good time;

fifth, the duty of the temporary manager to provide information at a creditor's request within ten days ensures its accountability. This rule makes its activity not closed but subject to control. In practice, this provision gives creditors the possibility of knowing the actual state of affairs and forming their position.

sixth, the duty to convene and hold the first meeting of creditors is of key importance, since it is precisely at this meeting that the creditors determine their position regarding the further procedure in the insolvency case.

2. This provision contemplates that the temporary manager may also be charged with other duties in accordance with legislation—that is, they are not limited only to this article. Since the temporary manager has the status of a judicial manager, the duties of a manager in an insolvency case provided for by Article 23 of the Law may also extend to it.

3. In accordance with this provision, upon the completion of the observation procedure, but not later than five days before the court hearing, the temporary manager is obliged to submit to the court a report, information on the financial condition, proposals on the possibility of restoring solvency, as well as the minutes of the first meeting of creditors together with the documents provided for by Article 16 of the Law. These documents are not merely formal papers but important sources of information on the basis of which the court adopts its subsequent decision.

See also: International Commentary, p. 754.

Article 85. Notification of the Introduction of the Observation Procedure

Within three days of its appointment, the temporary manager is obliged to send for publication in the mass media a notice of the introduction of the observation procedure in respect of the debtor in the manner provided for by Article 53 of this Law.

Not later than ten days after the date of publication of the notice of the introduction of the observation procedure, the temporary manager is obliged to notify all identified creditors of the debtor, except for creditors in respect of wage arrears, of the court's issuance of a ruling on the introduction of observation in respect of the debtor.

The debtor's manager is obliged to notify the debtor's employees, the founders (participants) or the owner of the debtor's property not later than three working days after the date of receipt of the court ruling on the introduction of the observation procedure in respect of the debtor.

Notification of creditors of the introduction of the observation procedure, except for creditors in respect of wage arrears, is carried out by sending the

creditor a notice in a manner permitting the date of the creditor's receipt of such notice to be established.

Notification of creditors with respect to claims for wage arrears is carried out by convening and holding a general meeting of the debtor's employees.

Notification of the founders (participants) of the debtor is carried out by convening a general meeting of the founders (participants) or by sending, to the body of the legal entity that, in accordance with legislation or the constituent documents, has the right to convene a general meeting of the founders (participants), a notice of the introduction of the observation procedure in respect of the debtor.

The notice of the introduction of the observation procedure in respect of the debtor must contain:

the name (surname, first name, patronymic) of the debtor, its location (postal address) and email address (if any);

the name of the court that issued the ruling on the introduction of the observation procedure in respect of the debtor, the date of issuance of such ruling and the number of the insolvency case;

the surname, first name and patronymic of the appointed temporary manager and its postal address;

the date, time and place of the court hearing for the consideration of the insolvency case as established by the court;

other information at the discretion of the sender of the notice (the temporary manager or the debtor's manager).

The article being commented upon establishes the procedure, periods, methods and requirements for the content of the notification of interested persons of the introduction of the observation procedure.

The principal aim of this provision is to ensure transparency within the insolvency case, the timely informing of all interested persons and the provision to them of the possibility of exercising their rights.

1. This provision charges the temporary manager with an important duty: within three days of its appointment, it must send a notice of the introduction of the observation procedure for publication in the mass media in the manner provided for by Article 53 of the Law.

In particular, in accordance with the requirements of this article, information on the court's introduction of the observation procedure is subject to publication in the mass media. The list of mass media, the frequency and periods for publishing such information, the cost of the services rendered, as well as the procedure for financing them, are established by the Cabinet of Ministers of the Republic of Uzbekistan.

Paragraph 1 of Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 160 of 11 June 2009 provides that the Agency for State Asset Management of the Republic of Uzbekistan, the Tax Committee and the Agency for Information and Mass Communications are designated as the mass media in which the information provided for by the Law of the Republic of Uzbekistan "On

Insolvency" is published, namely in the newspaper Biznes-Daily "Birzha" and/or on the official website of the Agency.

The judicial manager sends the notice provided for by part one of this article to the mass media within three days of the date of receipt of the relevant judicial act. Information on judicial acts sent for publication is published within three days of the day of its receipt.

The costs relating to the publication of the information specified in part one of this article are subject to reimbursement out of the debtor's monetary funds, unless otherwise provided for by this Law or by a decision of the meeting of creditors or the committee of creditors. Where the debtor has no monetary funds, payment for the publication of such information is made at the expense of the applicant who applied to the court with the application for the institution of bankruptcy proceedings, with subsequent reimbursement of these costs out of the debtor's property.

If the debtor has no property sufficient to reimburse the costs of publication, such costs are covered at the expense of the applicant who applied to the court with the application for the institution of bankruptcy proceedings against the debtor.

Information on judicial acts issued by the court may also be published in other mass media.

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22. Courts should bear in mind that, in accordance with part three part three of Article 59 of the Law, where the court adopts a decision refusing to declare the debtor bankrupt owing to a failure to establish signs of insolvency, the court costs—including the costs of the state duty whose payment was deferred or paid in installments, the costs of publishing in the mass media the information provided for by Articles 53 and 54 and 54 of the Law, and the costs of paying remuneration to judicial managers—are charged to the creditors who applied to the court with the application for the institution of insolvency proceedings against the debtor and are distributed among them in proportion to their claims.

23. It is explained to courts that the publication in the mass media of the requisite information provided for by Articles 53 and 54 of the Law, in accordance with paragraph 1 of Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 160 of 11 June 2009, is carried out in the economic newspaper Biznes-Daily "Birzha" and (or) on the official website of the authorized state body.

2. Alongside public publication, the law also requires the individual notification of identified creditors and is not limited only to publication in the mass media. The temporary manager is obliged, not later than ten days after the date of publication, to send a notice to all identified creditors, except for creditors presenting claims for wage arrears. In this regard, the legislator has established public and individual

notification as complementary mechanisms. In practice, this is particularly important, since a public announcement may not reach all creditors. Individual notification, in turn, makes it possible to confirm the fact that a particular creditor received the information. Therefore, the article expressly states that notices to creditors must be sent in a manner permitting the date of receipt to be determined. This provision is of material significance for the subsequent calculation of procedural periods, the period for presenting a creditor's claim and the assessment of whether its rights have been violated.

3. This provision establishes that, after receiving the court ruling on the introduction of the observation procedure in respect of the debtor, the debtor's manager is obliged, within three working days, to notify the employees, the founders (participants) and the owner of the property. This requirement is aimed at ensuring transparency in the bankruptcy process and at providing interested persons with the possibility of protecting their rights.

4. This provision clearly determines the procedure for notifying creditors. Upon the introduction of the observation procedure in respect of the debtor, notification of all creditors, except for creditors presenting claims for wages, must be sent in a manner permitting the date of its receipt to be established (for example, by postal notification with confirmation, electronic recording and the like). This requirement serves the correct calculation of the periods within which creditors exercise their rights and the prevention of possible disputes. The principal aim is to ensure the possibility of proving exactly when a creditor was notified.

5. This provision sets out a special procedure for creditors presenting claims for wages. Such creditors are notified by convening and holding a general meeting of the debtor's employees. In this regard, the Law takes account of the legal status of the employees, since they, as a rule, are bearers of a collective interest and their claims in many cases are homogeneous in nature. From a practical standpoint, this method makes it possible to notify the employees in full simultaneously and in an orderly manner.

An independent duty is also imposed on the debtor's manager. The manager is obliged to notify the debtor's employees, the founders (participants) or the owner of the property not later than three working days after the date of receipt of the court ruling. This provision means that notification of the introduction of the observation procedure is a duty not only of the temporary manager but also a statutory duty of the debtor's manager.

6. A special procedure for notifying the founders (participants) is also provided for. In this case, a general meeting of the founders is convened, or a notice is sent to the body authorized to convene such a meeting in accordance with legislation or the constituent documents. This rule is designed taking into account the internal management structure of a legal entity. In practice, such a procedure makes it possible for the founders to discuss the situation, to determine their position and to prepare for future corporate decisions.

7. This provision establishes clear requirements for the content of the notice of the introduction of the observation procedure in respect of the debtor and is aimed at ensuring the completeness and reliability of information in the bankruptcy process.

7.1. The requirement to indicate the name of the debtor, its location and (if any) email address serves, first and foremost, to ensure legal certainty. By virtue of this, it is clearly established in respect of exactly which person the procedure has been introduced, and the possibility of taking actions in respect of the wrong entity is precluded. At the same time, in practice this information enables creditors to establish contact with the debtor.

7.2. The rule on indicating the name of the court, the date of issuance of the ruling and the case number ensures procedural certainty and officiality. By virtue of these data, interested persons can identify the case, understand at what stage it is and, if necessary, apply to the court. As a result, transparency of the judicial process is ensured.

7.3. The requirement to indicate the identity and address of the temporary manager ensures the effective functioning of the mechanisms of management and control in the bankruptcy process. In practice, it is precisely the temporary manager that serves as the principal entity carrying out interaction with the creditors.

7.4. The indication of the date, time and place of the court hearing is aimed at ensuring procedural safeguards. By virtue of this, the parties obtain the possibility of participating in the court proceedings, expressing their opinion and presenting evidence. This rule is significant for the realization of one of the principles of a fair trial—the principle of hearing the parties.

7.5. The possibility of including additional information in the notice reflects the discretionary character of the provision. In practice, this makes it possible to take account of the particular features of a specific case and to convey additional important information. As a result, the informational value of the notice is enhanced, and more convenient conditions are created for creditors and other participants.

Thus, this provision as a whole serves as an important procedural safeguard ensuring transparency, access to information and the effective protection of the rights of participants in the bankruptcy process.

Article 86. Analysis of the Debtor's Financial Condition

The analysis of the debtor's financial condition is carried out for the purposes of determining the sufficiency of the debtor's property to cover the court costs and the costs of paying remuneration to judicial managers, as well as the possibility or impossibility of restoring the debtor's solvency.

On the basis of the analysis of the debtor's financial condition, including the results of the inventory of the debtor's property where available, and the analysis of the documents certifying the state registration of property rights, the temporary manager prepares proposals on the possibility or impossibility of

restoring the debtor's solvency, substantiating the information on the expediency of introducing subsequent insolvency procedures.

Based on the results of the financial analysis, the temporary manager draws up one of the following opinions on the debtor's financial condition:

on the failure to establish signs of insolvency;

on the existence of grounds for introducing one of the procedures for restoring solvency, where signs of temporary insolvency have been identified;

on the existence or absence of the possibility of restoring solvency, where signs of permanent insolvency have been identified.

The procedure for determining the debtor's financial condition is established by the Cabinet of Ministers of the Republic of Uzbekistan.

The temporary manager may engage a specialized organization to determine the debtor's financial condition.

The article being commented upon governs the question of the analysis of the debtor's financial condition by the temporary manager and the preparation of the corresponding opinion based on its results.

1. The principal aim of the financial analysis consists, *first,* in determining whether the debtor's property is sufficient to cover the court costs and the remuneration of judicial managers or whether it is insufficient. This provision is of significant practical importance, since the bankruptcy procedure itself requires certain expenditures. If the debtor has no property, or if it is insufficient even to cover the costs of the procedure, this serves as an important criterion for the court's choice of further procedures. *Second,* the analysis is aimed at establishing the possibility or impossibility of restoring the debtor's solvency.

2. Part two of this article clearly defines the duty of the temporary manager. In analyzing the debtor's financial condition, the manager must not confine itself only to the accounting records or information provided by the debtor itself but is obliged, where necessary, also to study the results of the inventory of the debtor's property. In addition, the documents confirming the state registration of property rights are specified as a source of the analysis. This rule is of great significance, since in practice property reflected on the balance sheet may have an uncertain legal status, may be pledged, may be under arrest, or may not be formally registered to the debtor at all. Therefore, the financial analysis must be substantiated not only economically but also legally.

On the basis of the analysis carried out, the temporary manager prepares proposals on the possibility or impossibility of restoring the debtor's solvency. In addition, the manager forms information substantiating the expediency of introducing subsequent bankruptcy procedures. Its opinion is an important source for the court in resolving the question of applying the procedures of judicial rehabilitation, external management or liquidation proceedings.

3. Part three of this Article establishes the opinions that the temporary manager prepares based on the results of the financial analysis:

(a) an opinion on the absence of signs of insolvency. This means that there are insufficient economic and legal grounds for applying the insolvency (bankruptcy) procedure in respect of the debtor. In such a situation, the very continuation of the consideration of the case may be inexpedient;

(b) an opinion on the existence of signs of temporary insolvency, where there are grounds for introducing one of the procedures for restoring solvency.

In accordance with the second paragraph of Article 5 of the Law, temporary insolvency means that, if the relevant obligations have not been performed by the debtor within three months of the moment they arose—and for town-forming enterprises and enterprises equated thereto, within six months—then, as of the date of applying to the court, the debtor is unable to satisfy creditors' claims under monetary obligations and (or) to perform its obligations with respect to taxes and levies.

In this regard, the legislator recognizes that the debtor's difficult financial position is not always a permanent and irreversible state. For example, the debtor may experience a shortage of working capital, a delay in accounts receivable or temporary difficulties in the market, leading to a decline in solvency. However, if production potential, assets and the possibility of generating income are nonetheless retained, measures to restore solvency may be applied.

(c) an opinion on the existence or absence of the possibility of restoring solvency where signs of permanent insolvency have been identified.

In accordance with the third paragraph of Article 5 of the Law, permanent insolvency is understood to mean a situation where, as of the date of filing the application with the court and as of the beginning of the reporting period of the year in which the application is filed—or, if the application is filed in the first quarter of the year, as of the beginning of the reporting period of the previous year—the debtor's obligations exceed the value of its assets.

This situation is the most complex conclusion and entails the most serious legal consequences. Even where the fact of permanent insolvency is established, the possibility of restoring the debtor's economic activity is not entirely excluded. If the financial position can be improved through economic, organizational or investment measures, the application of procedures for restoring solvency may be considered. If, however, no such possibility exists, this serves as a ground for the transition to liquidation procedures at the next stage.

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9. In accordance with part eight of Article 12 of the Law, if the meeting of creditors adopts a decision to declare the debtor bankrupt and commence liquidation proceedings, the court, taking account of the temporary manager's

opinion on the existence of a possibility of restoring the debtor's activity, may introduce in respect of the debtor one of the procedures for restoring its solvency.

In this regard, it should be borne in mind that the court may introduce in respect of the debtor one of the procedures for restoring its solvency only where the grounds provided for in part three of Article 92 and part one of Article 108 of the Law are present.

4. Part four of this article provides that the procedure for determining the debtor's financial condition is established by the Cabinet of Ministers.

In accordance with paragraph 1 of the "Rules for Identifying Signs of False Insolvency, Concealment of Insolvency and Deliberate Insolvency," approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 224 of 14 August 2013, these Rules determine the procedure for the arbitration (court) manager's analysis of the debtor's financial and economic activity for the purpose of identifying signs of fictitious bankruptcy, concealment of bankruptcy and deliberately bringing about bankruptcy (hereinafter—the analysis).

5. This provision grants the temporary manager the right to engage a specialized organization to determine the debtor's financial condition.

The sixth paragraph of Article 23 of the Law states that the manager has the right to engage other persons on a contractual basis, with payment for their activity out of the debtor's funds, unless otherwise provided for in an agreement with the creditors.

In practice, this provision is of special significance with respect to debtors having a significant volume of assets, a complex corporate structure or a property base that is difficult to assess. For example, audit organizations, valuation companies and financial-consulting entities may be engaged. This, on the one hand, enhances the quality of the analysis and, on the other, ensures the objectivity and soundness of the opinion submitted to the court. In this regard, the temporary manager does not transfer its powers entirely to third parties; the engaged organization serves merely as an auxiliary and expert entity, while responsibility for the final opinion remains with the temporary manager.

On the whole, the analysis of the debtor's financial condition is carried out not only to determine the possibility of restoring solvency and the sufficiency of property to cover the court costs, including the remuneration of the temporary manager, but also to identify signs of fictitious bankruptcy, concealment of bankruptcy or deliberately bringing about bankruptcy.

See also: International Commentary, p. 754.

Article 87. Establishment of the Amount of Creditors' Claims

In order to participate in the first meeting of creditors, creditors have the right to present their claims against the debtor within thirty days of the moment the information on the introduction of the observation procedure in respect of the debtor is published in the mass media. Creditors' claims are sent by the creditors to the court, to the debtor and to the temporary manager, together with the judicial act or other documents confirming the soundness of these claims.

The debtor has the right to file with the court its objections regarding creditors' claims that have grounds for being recognized as established, if:

there is a judicial act that has entered into legal force annulling or altering the judicial act presented by the creditor as a ground for recognizing the claims as established, or likewise suspending its effect or altering the method and procedure for its enforcement;

there is a document annulling or altering the document (acknowledgment of debt, a notary's writ of execution and the like) presented by the creditor as a ground for recognizing the claim as established, or likewise suspending its effect;

an agreement has been concluded between the debtor and the creditor on altering the terms, procedure and conditions for repaying the debt under the document presented by the creditor as evidence that the claim is to be classified as established;

the debtor has made full or partial repayment of the debt;

there is evidence of a change of person in the obligation in respect of which the claim is presented.

The temporary manager has the right to send to the court objections to creditors' claims recognized in accordance with this Law, if the temporary manager has sufficient grounds to consider that the debtor's actions in acknowledging the debt violate the rights and legitimate interests of other creditors and (or) are unfounded.

The objections of the debtor or the temporary manager regarding creditors' claims may be presented to the court within a one-week period from the moment the relevant claims are received. Creditors' claims regarding which objections have been received are considered at a court hearing. Based on the results of the consideration, a court ruling is issued on the inclusion of the said claims in the register of creditors' claims or on the refusal to include them. A creditor's claim regarding which the debtor or the temporary manager has not presented objections within the said period is entered into the register of creditors' claims in the amount declared by the creditor.

Where creditors' claims are recognized as unfounded or as not confirmed by proper evidence, the relevant applications of the creditors are subject to return. These claims may be presented in the course of subsequent insolvency procedures.

A creditor may appeal against the decision of the temporary manager or of the court refusing to include its claims in the register of creditors' claims.

The article being commented upon establishes the procedure for determining the composition and amount of creditors' claims.

1. Under part one of the article, creditors have the right to present their claims within thirty days of the moment the information on the introduction of the observation procedure in respect of the debtor is published in the mass media. The said period is of significant legal importance, since it is precisely during this period that creditors acquire the possibility of participating in the first meeting of creditors. Thus, the provision determines not only the procedure for presenting claims but also the procedural status of creditors in the bankruptcy case. In practice, compliance with this period is of material significance, since missing the period does not deprive a creditor of its right of claim as a whole but may lead to the loss of the possibility of influencing the initial stages of the procedure.

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24. In order to participate in the first meeting of creditors, creditors have the right to present their claims against the debtor in the manner and within the periods established by part one Article 87 of the Law. In this regard, the amount of the monetary obligations and mandatory payments entered into the register of creditors' claims is determined as of the date on which the court accepts for proceedings the application for the institution of insolvency proceedings against the debtor.

In accordance with the requirements of the law, a creditor sends its claim not only to the debtor but also to the court and to the temporary manager. This rule is based on the principle of tripartite notification and transparency. The court has the power to accept the claim procedurally and consider it, the debtor obtains the possibility of expressing its attitude toward the claim, and the temporary manager uses this information to determine the amount of all creditors' claims and to maintain the register. In this regard, the creditor is obliged to attach to its claim the judicial act or other documents confirming the soundness of the claim. The aim of this requirement is to ensure that not just any claim, but only legally well-founded claims confirmed by the relevant documents, are included in the register.

2. Part two of this article governs the debtor's right to raise objections. Here, the Law does not provide for the automatic recognition of a creditor's claim but opts for a mechanism of verifying claims. Even if a creditor's claim has grounds for being recognized as established, the debtor, where certain legal circumstances are present, may raise objections to such a claim. *In the first case,* the debtor has the right to call a claim into question if there is another judicial act that has entered into legal force

which annuls or alters the claim, suspends its effect or alters the procedure for its enforcement. This rule is particularly important in situations where judicial decisions are reviewed at several stages, since a decision adopted earlier may subsequently lose force. *In the second case,* the debtor may object if other documents presented as a ground for the creditor's claim—for example, a document acknowledging debt, a notary's writ of execution and the like—have been annulled or altered, or their effect suspended. Here, the Law provides for the need to assess not only judicial acts but also other enforcement or supporting documents. *In the third case,* an objection is possible if an agreement has been concluded between the debtor and the creditor on altering the term, procedure or conditions for performing the original obligation. Such an agreement may affect the legal assessment of the obligation itself or the conditions of its performance. *In the fourth case,* a material ground is the full or partial performance of the obligation by the debtor. This is an important practical rule, since the inclusion in the register of creditors of obligations that in fact do not exist or have already been partially performed may seriously violate the interests of other creditors. *In the fifth case,* an objection is also possible where there is evidence of a change of person in the obligation—that is, where the actual creditor has become a different person or the debtor has changed. This requires a renewed assessment of exactly to whom, and in what amount, the claim belongs. All these provisions show that the Law requires not a formal but a substantive and legally thorough verification of creditors' claims.

3. Part three of this article also grants the temporary manager the right to raise objections. If the manager considers that the debtor's actions in acknowledging a particular debt violate the rights and legitimate interests of other creditors, or if there are sufficient grounds to consider that such acknowledgment is unfounded, it has the right to file an objection with the court. Thus, the Law also provides for a protective mechanism aimed at preventing possible situations such as collusion between the debtor and particular creditors, the artificial creation of debt, or the granting of an unjustified advantage to one creditor.

4. The establishment of a seven-day period for the filing of objections by the debtor and the temporary manager is likewise an important procedural safeguard. Such a short period is aimed at preventing the artificial protraction of the process. At the same time, the law provides that, where there are objections to claims, they are subject to consideration at a court hearing. Thus, the question of including or not including a creditor's claim in the register, where there is a dispute, is resolved not only in writing but also within court proceedings. Based on the results of the consideration, the court issues a ruling on the inclusion of the claim in the register of creditors' claims or on the refusal to include it. The significance of this judicial act lies in the fact that it is precisely this act that determines the legal status of the creditor in the insolvency case, the amount of its claim and, in many cases, the possibility of participating in voting.

Part three of Article 49 of the Law states that, where there are objections regarding creditors' claims on the part of the debtor, the temporary manager, the state tax service body or another authorized body, the judge is obliged to verify the soundness of such objections. Part four provides that the judge's consideration of the soundness of the objections of the debtor, the temporary manager, the state tax service body or another authorized body must be carried out not later than one month before the expiry of the established period for considering the insolvency case. Part five establishes that, based on the results of considering the soundness of the objections of the debtor, the temporary manager, the state tax service body or another authorized body, the court issues a ruling on the inclusion of creditors' claims in the register of creditors' claims or on the refusal to include them in the register. The ruling specifies the amount of the creditors' claims and the order of priority of their satisfaction, where the objections regarding them are recognized as unfounded.

This provision also contains another important rule: if the debtor or the temporary manager does not present objections regarding a creditor's claim within the established period, such a claim is included in the register in the amount declared by the creditor. In practice, this rule is of great significance, since it encourages the parties to engage in active procedural conduct and relieves the court of the need to take the initiative with respect to each individual claim. However, the claim itself must be declared in accordance with the law—that is, properly substantiated by the requisite documents.

5. Part five of this article establishes that, if a creditor's claims are recognized as unfounded or are not confirmed by proper evidence, the relevant applications are subject to return. However, the Law does not exclude such claims entirely but merely indicates the absence of sufficient grounds for their acceptance at this stage. In this connection, it is separately noted that such claims may be presented again at subsequent stages of the insolvency procedure. This provision prevents the complete loss of a creditor's rights and at the same time ensures that only those claims which have sufficient legal substantiation are included in the register.

6. Part six of this article provides for a creditor's right to appeal against the decision of the temporary manager or of the court refusing to include its claim in the register. Such a complaint is considered in the manner established by Article 60 of this Law.

A creditor not included in the register may in fact be deprived of important procedural rights, such as participation in the insolvency case, the right to vote and the possibility of obtaining satisfaction in the established order of priority. Therefore, the possibility of appealing against a refusal decision ensures the procedural equality of the creditor and effective mechanisms for protecting its rights.

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27. Judicial acts in insolvency cases may be reviewed in the manner established by the Economic Procedure Code, taking account of the particular features provided for by the Law.

Rulings issued by the court within an insolvency case that are not provided for by the Economic Procedure Code may be appealed against (challenged by protest) only in the cases and in the manner established by the Law, except for the rulings provided for by Article 51, part two part two of Article 95, part two part two of Article 108 and part four of Article 140 of the Law, which may be appealed against (challenged by protest) in the manner provided for by the Economic Procedure Code.

In particular, the rulings of the court issued based on the results of considering the applications and complaints specified in Article 60 of the Law may be appealed against (challenged by protest) in the manner and within the periods established by the Law. An appellate complaint (protest) against the said court rulings is filed within ten days of the moment of their issuance; a cassation complaint against a court ruling that has not been considered on appeal is filed within one month of the day it entered into legal force (Article 61 of the Law).

A court ruling recognizing a decision of the meeting of creditors as invalid may be appealed against (challenged by protest) in the same manner (part five of Article 17 of the Law).

Article 88. Convening of the First Meeting of Creditors

The temporary manager determines the date of holding the first meeting of creditors and notifies thereof all identified creditors, the representative of the debtor's employees, as well as other persons (bodies) entitled to participate in the first meeting of creditors. Notification of the holding of the first meeting of creditors is carried out by the temporary manager in the manner provided for by Article 14 of this Law. The first meeting of creditors must take place not later than five days before the date of holding the court hearing established in the court ruling on acceptance for proceedings of the application for the institution of insolvency proceedings against the debtor.

Participants in the first meeting of creditors with the right to vote are the creditors whose claims have been presented in the manner provided for by part one of Article 87 of this Law and have been entered into the register of creditors' claims.

In the first meeting of creditors, the representative of the founders (participants) or the owner of the debtor's property and the representative of the debtor's employees may participate without the right to vote. The absence of the said persons is not a ground for recognizing the meeting of creditors as invalid.

The article being commented upon establishes the procedure for convening and holding the first meeting of creditors.

1. The first meeting of creditors is convened, first and foremost, for the purpose of familiarizing the creditors with the results of the analysis of the financial condition of the debtor, as well as for developing proposals regarding the possibility or impossibility of restoring its solvency.

The convening, organization and holding of the first meeting of creditors fall within the direct duties of the temporary manager (part nine of Article 12 of the Law) and are carried out in the manner established by Articles 14–15 of the Law.

The temporary manager independently determines the date of holding the meeting. This rule once again confirms the organizational and coordinating role of the temporary manager during the observation procedure. The manager is not only the person carrying out the analysis of the financial condition or compiling creditors' claims but also the entity responsible for convening the meeting at which the collective will of the creditors is expressed, as well as for ensuring the conditions necessary for holding it. It is precisely from this standpoint that granting the temporary manager the power to convene the first meeting is aimed at ensuring the neutral and orderly organization of the proceedings.

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24. Courts should note that the day of holding the meeting of creditors should be understood as the date on which the meeting of creditors adopts a decision to apply to the court with a petition for the introduction of the relevant insolvency procedure.

The period within which the first meeting of creditors must be held is also specified. According to it, the first meeting must be held not later than five days before the date of the court hearing established in the court ruling on acceptance for proceedings of the application for the institution of insolvency proceedings against the debtor. The significance of this period lies in the fact that it obliges the temporary manager to take organizational measures in good time, not permitting the artificial protraction of the process. In other words, the law does not afford the possibility of postponing the holding of the first meeting indefinitely. This is of significant importance for the interests of creditors, since in the insolvency process the time factor plays a special role: there may be a reduction of the debtor's assets, a change in the condition of the property or harm to the interests of other creditors.

The Law charges the temporary manager with the duty not only to determine the date of holding the meeting but also to notify thereof all identified creditors, the

representative of the debtor's employees, as well as other persons and bodies entitled to participate in the first meeting. In practice, non-compliance with the notification procedure may subsequently become a ground for objections regarding the recognition of the meeting's decisions as invalid. This question is enshrined not in a general manner but by reference to the special procedure provided for by Article 14 of the Law.

In accordance with part five of Article 17 of the Law, a decision of the meeting of creditors adopted in violation of the requirements of the Law and other regulatory legal acts and violating the rights and legitimate interests of creditors may be recognized as invalid by the court upon the application of a creditor who did not participate in the voting or voted against such a decision. Part six of this article establishes that, if a decision of the meeting of creditors violates the rights and legitimate interests of other persons participating in the insolvency case, such a decision may likewise be recognized as invalid by the court. A creditor and (or) another person participating in the insolvency case has the right to file an application within twenty days of the day on which they learned or ought to have learned of the decision adopted.

2. Part two of this article determines who has the right to vote at the first meeting. According to it, creditors whose claims have been presented in the manner provided for by part one of Article 87 of the Law and have been included in the register of creditors' claims are participants in the first meeting with the right to vote. Thus, not just any person acquires the right to vote merely on the basis of considering itself a creditor, but only where it has presented a claim in accordance with the Law and that claim has been included in the register. Such an approach ensures legal certainty and stability of the decision-making process at the first meeting, as well as precludes the possibility of an effect on the will of the creditors by persons with disputed, as yet unconfirmed or unfounded claims.

3. Part three of this article determines the persons who may participate in the first meeting without the right to vote. These include the representative of the founders (participants) of the debtor, the representative of the owner of the debtor's property, as well as the representative of the debtor's employees. Thus, the Law affords these persons the possibility of participating, obtaining information, and expressing their opinion, but does not grant them the right to exert decisive influence on the creditors' decision-making process. Such an approach ensures the priority of creditors' interests while at the same time preserving the possibility of hearing other interested participants.

This provision also enshrines another important rule: the non-participation in the meeting of the representatives of the debtor's founders, the owner of the property, or the employees is not a ground for recognizing the meeting as invalid. This provision ensures the practical stability of holding the first meeting. If the law established the participation of the said persons as a mandatory condition, their non-appearance or non-participation for various reasons could lead to repeated postponements of the

process. Therefore, the Law affords them the possibility of participating but does not make the validity of the meeting dependent on their presence. Such a solution is of special significance from the standpoint of preventing the unjustified protraction of the case.

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12. Courts should bear in mind that the representative of the debtor's employees, the judicial manager and the representative of the founders (participants) of the debtors or the owner of the debtor's property have the right to participate in the meeting of creditors or the committee of creditors without the right to vote. However, their non-participation is not a ground for recognizing a decision of the meeting of creditors or the committee of creditors as invalid.

See also: International Commentary, p. 755.

Article 89. Issues Considered by the First Meeting of Creditors

At the first meeting of creditors, decisions are adopted on the following issues:

on applying to the court with a petition for the introduction of the judicial rehabilitation procedure or external management;

on applying to the court with a petition to declare the debtor bankrupt and commence liquidation proceedings;

on the number of members of the committee of creditors and their election;

on the approval of the candidate for rehabilitation manager, external manager or liquidation manager;

on other issues provided for by this Law.

The article being commented upon determines the content of the first meeting of creditors—that is, the principal issues that are considered within this meeting.

The first meeting of creditors adopts a decision on applying to the court with a petition for the introduction of the judicial rehabilitation procedure or the external management procedure.

In accordance with the definition set out in Article 3 of the Law, judicial rehabilitation means the measures taken by the founders (participants) of a legal entity debtor, or by the owner of its property, by creditors and other persons, for the purposes of restoring the debtor's solvency and preventing its insolvency.

External management means a solvency-restoration procedure applied by the court to a legal entity debtor, whereby the powers to manage the debtor's affairs are transferred to an external manager for the purposes of its financial recovery.

A decision to introduce judicial rehabilitation or external management is, as a rule, based on the conclusion that the debtor's financial condition is not entirely hopeless, that there is a possibility of continuing its activity, preserving assets, gradually repaying the debt and restoring economic turnover. In this regard, the first meeting of creditors must adopt its decision on the basis of the results of the financial analysis prepared by the temporary manager, the debtor's actual economic capabilities and the prospects for repaying the debt.

The adoption of a decision to introduce judicial rehabilitation or external management means that the creditors, to a certain extent, retain confidence in the debtor, since such procedures are applied to entities that retain the possibility of carrying out economic activity. This rule is of great significance, since insolvency law is not only a law of liquidation but also a law of preserving an economic entity and restoring its activity.

The first meeting of creditors may adopt a decision on applying to the court with a petition to declare the debtor bankrupt and commence liquidation proceedings.

In accordance with the definition set out in Article 3 of the Law, a bankrupt is a debtor recognized by the court as insolvent, in respect of which the liquidation proceedings procedure or the property-sale procedure is applied;

the liquidation proceedings is a procedure applied by the court to a legal entity debtor for the purposes of the proportionate satisfaction of creditors' claims, the declaration of the debtor's release from its obligations and its liquidation, except for insolvency cases concerning a natural person.

If the possibility of restoring the debtor's solvency in fact does not exist, or if restoration measures do not correspond to the interests of the creditors, the creditors may deem it expedient to transition to the liquidation procedure. In this case, they apply to the court with a request to declare the debtor bankrupt and commence liquidation proceedings.

At the first meeting, a decision may also be adopted on the number of members of the committee of creditors and their election.

Part two of Article 19 of the Law provides that the committee of creditors comprises representatives of the creditors in a number determined by the meeting of creditors; part three of Article 20 establishes that the candidates who receive the greatest number of votes are deemed elected to the committee of creditors; part four provides that the members of the committee of creditors may elect a chairperson of the committee of creditors from among their number; part five establishes that, if the committee of creditors has more than five members, a chairperson of the committee of creditors is elected without exception.

This provision is an important expression of the mechanism of self-organization of creditors. In an insolvency case, the constant convening of all creditors on every issue is not effective in practice. In this connection, the committee of creditors is formed as a permanently functioning representative body of the meeting of creditors, expressing the interests of the creditors and acting on their behalf on certain matters.

Assigning the question of determining the number of members and their election specifically to the first meeting is a correct solution from the standpoint of legislation, since at subsequent stages of the case the body representing the interests of the creditors must already be formed at the initial stage on lawful grounds.

At the first meeting, a decision is adopted on the approval of the candidates for rehabilitation manager, external manager or liquidation manager. This rule is likewise of great significance, since the fate of the subsequent procedures depends in large measure precisely on the activity of these managers. Judicial rehabilitation, external management or liquidation proceedings are carried out effectively not only by means of the rules of the law but also thanks to the qualifications, good faith, independence and professional experience of the persons who carry them out. Therefore, the law, by granting the creditors the power to approve these candidates, creates the possibility of appointing a judicial manager enjoying their confidence.

Here, too, there is an important legal logic: it is precisely the creditors who are the persons most interested in the results of the subsequent procedures. Therefore, determining the candidate for judicial manager without taking account of their opinion would not be entirely fair. However, this power is likewise not absolute, since, in appointing a manager, judicial control and the requirements of the law are preserved. Thus, the creditors approve the candidate, and the court assesses its conformity with the requirements of legislation. This is another manifestation of the balance between the will of the creditors and judicial control.

Since an insolvency case is a complex and multifaceted process, restricting the issues to be resolved within the first meeting to only the four listed areas is not always expedient. The possibility of addressing other issues provided for by the law connects the powers of the first meeting of creditors with the general legal system and, where necessary, makes it possible to resolve at this meeting also the issues established by other rules of legislation.

This article institutionally strengthens the collective participation of creditors in the insolvency process, promotes the orderly expression of their interests and creates for the court an important procedural basis in determining the further procedure.

By establishing the principal issues that are to be discussed and resolved at the first meeting of creditors, it reveals the legal nature and practical significance of this meeting.

See also: International Commentary, p. 755.

Article 90. Decision of the First Meeting of Creditors on Applying to the Court for the Introduction of the Judicial Rehabilitation Procedure

The decision of the first meeting of creditors on applying to the court with a petition for the introduction of the judicial rehabilitation procedure must contain the proposed period of the judicial rehabilitation procedure and the approved debt repayment schedule.

The first meeting of creditors that has adopted a decision on applying to the court with a petition for the introduction of the judicial rehabilitation procedure has the right to apply to the court with a petition to relieve the temporary manager of the performance of its duties. In the said petition of the meeting of creditors, a candidate for rehabilitation manager may be proposed to the court for appointment.

The article being commented upon determines the content and legal consequences of one of the most important decisions adopted by the first meeting of creditors—the decision on applying to the court with a petition for the introduction of the judicial rehabilitation procedure.

1. Under part one of the article, the decision of the first meeting of creditors on applying to the court with a petition for the introduction of the judicial rehabilitation procedure must, without exception, specify the proposed period of judicial rehabilitation and the approved debt repayment schedule.

In accordance with the definition set out in Article 3 of the Law, the judicial rehabilitation procedure is a procedure applied by the court to a legal entity debtor for the purposes of restoring its solvency and repaying the debt to creditors without transferring the powers to manage the debtor's affairs to a rehabilitation manager.

It is not by chance that the proposed period of judicial rehabilitation is provided for as a mandatory element of the decision, since any rehabilitation procedure must be limited to a certain period. If the period of judicial rehabilitation were to remain undefined, this could lead to the artificial protraction of the process, the deferral of the satisfaction of creditors' interests and the further depreciation of the debtor's property. Therefore, the Law requires the creditors, in adopting a decision to apply a restoration procedure, also to determine the period over which it is to continue. On the one hand, this enables the court to assess a realistic and controllable judicial rehabilitation plan and, on the other, contributes to the effective organization of the debtor's further activity within the established period.

In practice, if the decision of the first meeting of creditors does not specify the period of rehabilitation or the debt repayment schedule, the court may refuse to grant such a petition.

2. Under part two of the article being commented upon, the first meeting of creditors that has adopted a decision to apply to the court with a petition for the introduction of the judicial rehabilitation procedure simultaneously has the right to apply to the court with a petition to relieve the temporary manager of the performance of its duties. The temporary manager mainly performs the functions of observation, analysis, and the gathering of initial information. Judicial rehabilitation, however, requires the implementation of active rehabilitation measures, ensuring the performance of the debt repayment schedule and the financial recovery of the economic activity. Therefore, the Law affords the creditors the possibility, when transitioning to the next stage, of reconsidering also the question of the management

entity. If the creditors are not confident that the temporary manager will be able to work effectively at the next stage, or consider that another, more suitable candidate is required for carrying out the rehabilitation, they have the right to apply to the court with the relevant petition.

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35. In accordance with the Law, the candidate for rehabilitation manager is presented to the court by the meeting of creditors or by the persons who have provided security for the performance of obligations (part one of Article 97 of the Law).

Where the meeting of creditors or the persons who have provided security for the performance of obligations have not presented a candidate for rehabilitation manager, the court should appoint a rehabilitation manager from among the candidates put forward, upon its request, by the authorized state body or the public association of judicial managers.

See also: International Commentary, p. 755.

Article 91. Decision of the First Meeting of Creditors on Applying to the Court for the Introduction of the External Management Procedure, for the Declaration of the Debtor as Bankrupt and the Commencement of Liquidation Proceedings

The decision of the first meeting of creditors on applying to the court with a petition for the introduction of the external management procedure must contain the proposed period of the external management procedure and the candidate for external manager, as well as information about that candidate.

The decision of the first meeting of creditors on applying to the court with a petition to declare the debtor bankrupt and commence liquidation proceedings must contain the proposed period of the liquidation proceedings and the candidate for liquidation manager, as well as information about that candidate.

The article being commented upon governs the content of the decisions that may be adopted by the first meeting of creditors: the decision on applying to the court with a petition for the introduction of the external management procedure, as well as the decision on applying to the court with a petition to declare the debtor bankrupt and commence liquidation proceedings.

1. Under part one of the article being commented upon, the decision of the first meeting of creditors on applying to the court with a petition for the introduction of the external management procedure must contain the proposed period of the external

management procedure, the candidate for external manager, as well as information about that candidate.

In accordance with the definition set out in Article 3 of the Law, external management—means a solvency-restoration procedure applied by the court to a legal entity debtor for the purposes of its financial recovery, with the transfer of the powers to manage the debtor's affairs to an external manager.

The adoption of a decision to introduce external management is not confined to the simple expression of a general opinion that "the application of this procedure is expedient." On the contrary, when the first meeting of creditors applies to the court, such an application must contain a clear idea of which procedure is to be applied subsequently, over what period it is to be carried out and by whom it is to be implemented.

The provision for the proposed period of the external management procedure as a mandatory element of the decision is explained, first and foremost, by the temporary and goal-oriented nature of this procedure. External management is not the endless continuation of the debtor's activity but a special, planned stage of management established for the purposes of restoring its solvency, reorganizing its financial activity, transferring its economic activity to a more effective form and securing the interests of creditors to the maximum extent possible. Therefore, the Law connects external management with a specific time limit. On the one hand, this prevents the artificial protraction of this procedure and, on the other, enables the court and the creditors to assess its effectiveness.

The requirement to indicate in the decision the candidate for external manager and information about that candidate is likewise of very significant importance, since the content of external management is considerably broader than ordinary control and presupposes an active form of managing the debtor aimed at its reorganization and, in effect, having the character of crisis management. In such conditions, the personality of the external manager, its professional training, qualifications, independence and reliability acquire special significance. By affording the creditors the possibility of expressing their position regarding this candidate, the Law recognizes that the effectiveness of external management depends in large measure on the competence of the manager who will carry it out. The mandatory indication of information about the candidate creates for the court the possibility of verifying the conformity of this person with the requirements of the law, as well as of assessing the expediency or inexpediency of its appointment.

2. The article being commented upon establishes requirements for the content of the decision on directing to the court a petition to declare the debtor bankrupt and open liquidation proceedings.

In accordance with the definition contained in Article 3 of the Law, liquidation proceedings is a procedure applied by the court to a legal entity debtor for the purposes of the proportionate satisfaction of creditors' claims, the release of the

debtor from its obligations and the declaration of its liquidation, except for insolvency cases concerning natural persons.

Such a decision must contain the proposed period of the liquidation proceedings, the candidate for liquidation manager, as well as information about that candidate. It follows from this provision that, even in resolving the question of applying such a radical legal measure as declaring the debtor bankrupt and liquidating it, the Law requires that the decision of the meeting of creditors have clearly defined content.

The article being commented upon provides that the proposed duration of the liquidation proceedings must be a mandatory part of the decision. This is of significant importance, since the aim of the liquidation proceedings is to identify, preserve and realize the debtor's property, to distribute the proceeds in the established order of priority, as well as to complete all actions relating to the termination of the legal entity's activity in the manner established by law. This procedure likewise must not be unjustifiably protracted indefinitely. By requiring the proposed duration of the liquidation proceedings to be specified in the decision, the Law prompts both the creditors and the court to plan this stage within reasonable time limits. This is particularly important from the standpoint of the creditors' interests, since the unjustified protraction of the liquidation may lead to a decline in the value of the property, an increase in the costs of its maintenance and a reduction in the volume of satisfaction of creditors' claims.

The requirement to indicate the candidate for liquidation manager and information about that candidate is likewise of great practical significance. The liquidation manager is a key figure at the final and most responsible stage of insolvency: it is precisely this manager that carries out the management of the debtor's property, gathers the assets, gives the final assessment of the debtor's financial condition and plays a central role in conducting settlements with the creditors. Therefore, the correct choice of candidate for this position is of decisive importance for the lawfulness, objectivity and effectiveness of the liquidation procedure. By granting the creditors the right to propose such a candidate, the Law creates the possibility of conducting the liquidation procedure by a person enjoying the confidence of the creditors.

See also: International Commentary, p. 755.

Article 92. Termination of the Observation Procedure

The court, on the basis of a decision of the first meeting of creditors and unless otherwise established by this article, adopts a decision to declare the debtor bankrupt and commence liquidation proceedings, or issues a ruling on the introduction of the judicial rehabilitation procedure or external management, or approves a settlement agreement and terminates the insolvency proceedings.

If the first meeting of creditors has not adopted a decision to apply one of the insolvency procedures, or if none of its decisions has been submitted to the

court within the period established by Article 16 this Law, the court, where signs of insolvency are present, adopts a decision to declare the debtor bankrupt and commence liquidation proceedings, unless otherwise provided for by this article. Where there are no signs of permanent insolvency, the court returns the submitted materials for the consideration at the meeting of creditors of the question of introducing one of the restoration procedures in respect of the debtor.

If the first meeting of creditors has adopted a decision on applying to the court with a petition to declare the debtor bankrupt and commence liquidation proceedings, or if none of its decisions has been submitted to the court, the court may issue a ruling on the introduction of the judicial rehabilitation procedure upon the petition of the founders (participants) or the owner of the debtor's property, the authorized state body, as well as a third party (parties), on the condition that the applicants provide security for the performance of the debtor's obligations in accordance with the debt repayment schedule.

Until a rehabilitation manager, external manager or liquidation manager is appointed, the performance of that manager's duties in full is entrusted to the person who previously performed the duties of temporary manager.

From the moment the court declares the debtor bankrupt and commences liquidation proceedings, or introduces the judicial rehabilitation procedure or external management, or approves a settlement agreement, the observation procedure is terminated.

The article being commented upon determines the concluding stage of the observation procedure and the manner of its completion.

1. Under part one of the article being commented upon, the court, on the basis of a decision of the first meeting of creditors and unless otherwise provided for by this article, adopts a decision to declare the debtor bankrupt and open liquidation proceedings (Article 140 of the Law), or issues a ruling on the introduction of the judicial rehabilitation procedure or external management (Articles 93, 95 and 108 of the Law), or approves a settlement agreement and terminates the proceedings (Articles 162 and 166 of the Law). This provision indicates, first and foremost, that the decision of the first meeting of creditors is of decisive procedural significance. Upon the completion of the observation stage, the court does not leave the case in an uncertain state but chooses one of the further legal directions provided for by law. Consequently, it is precisely at this stage that the function of observation is completed: it provides the court and the creditors with the information and procedural basis necessary for adopting a well-founded decision on the further fate of the debtor.

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29. Courts should bear in mind that, where the debtor fails to repay creditors' claims within the period established by the court and where the signs of insolvency provided for by part one part one of Article 5 of the Law are established, in the absence of grounds for introducing one of the restoration insolvency procedures, approving a settlement agreement or terminating the insolvency proceedings, the court adopts a decision to declare the debtor bankrupt and commence liquidation proceedings.

This provision, which envisages that the court bases itself on the decision of the first meeting of creditors, means that in insolvency cases the will of the creditors is of significant importance. However, in this regard, the court acts not as a body mechanically following the decision of the creditors but as a jurisdictional body which, within the framework of the law, gives this decision a legal form and assesses its soundness. It is precisely for this reason that the article contains the reservation "unless otherwise provided for by this article." This reservation means that the court is not bound exclusively by the decision of the creditors and may, in certain cases, apply other solutions provided for by law. Consequently, this provision ensures a balance between the collective will of the creditors and judicial control.

2. Part two of the article being commented upon governs the situation where the first meeting of creditors has not adopted a decision to apply one of the insolvency procedures, or where its decisions have not been submitted to the court within the period established by law (part three of Article 16 of the Law). This provision is of significant importance, since in practice the meeting of creditors may, for various reasons, fail to arrive at a single position, the votes may be split, or the decision adopted may not be sent to the court in good time. The Law does not permit the case in such a situation to remain in a state of "procedural vacuum." On the contrary, the court is afforded a more independent role: where the signs of permanent insolvency provided for by the third paragraph of part one of Article 5 of the Law are present, and unless otherwise provided for by this article, the court adopts a decision to declare the debtor bankrupt and open liquidation proceedings. The legal logic of this provision is evident: if the creditors have been unable to reach agreement or have not exercised their procedural powers, yet the case materials attest to the debtor's permanent insolvency, the further artificial protraction of the case is inexpedient. In such a situation, the transition to the liquidation procedure appears to be a well-founded solution from the standpoint of protecting creditors' interests, preserving assets and not allowing the possibility of satisfying claims to be lost. This provision means that the passivity of the creditors or their internal disagreements may not serve

as a ground for ignoring the debtor's objective financial condition. In other words, objective economic reality is placed above procedural inaction.

At the same time, the law also provides for an alternative course of events. If there are no signs of permanent insolvency, the court returns the materials submitted for consideration at the meeting of creditors in order to resolve the question of introducing one of the procedures for restoring the debtor's solvency. This provision reflects a very fine balance. The mere fact that the first meeting of creditors did not adopt a decision, or that the decision adopted was not submitted to the court, does not yet mean that the debtor must be liquidated. If the case materials attest that the restoration of the debtor's activity is still possible, the court must not hastily declare it bankrupt. Consequently, the law obliges the court to take account not only of the liquidation approach but also the rehabilitation approach. This provision is entirely consistent with the modern principle of insolvency law—the preservation of an economically viable entity to the maximum extent possible.

3. Part three of the article being commented upon provides for an even more important and specific mechanism. If the first meeting of creditors has adopted a decision on applying to the court with a petition to declare the debtor bankrupt and open liquidation proceedings, or if none of its decisions has been submitted to the court, the court may, upon the petition of the founders (participants) of the debtor, the owner of the debtor's property, the authorized state body, as well as a third party, issue a ruling on the introduction of judicial rehabilitation on the condition that the applicants provide security for the performance of the debtor's obligations in accordance with the debt repayment schedule. This provision is one of the most important safeguards for preserving the possibility of restoring solvency in insolvency law. The Law proceeds from the premise that, even if the creditors advocate the liquidation of the debtor or their decision has not reached the court at all, judicial rehabilitation may nonetheless be introduced if other interested persons are prepared to preserve the debtor and confirm this intention not by simple declarations but by genuine security for the performance of the debt repayment schedule. This is of particularly significant importance in situations where the founders, owners of property or third parties are prepared to allocate genuine economic resources for the financial recovery of the debtor. In this way, the law, on the one hand, protects the interests of the creditors, since rehabilitation is permitted only where security is present, and, on the other, seeks to prevent the loss of the possibility of preserving an economic entity solely on formal grounds.

The legal significance of this provision lies in the fact that, for the introduction of judicial rehabilitation, subjective desire alone is not sufficient. Of course, the founders, participants or third parties may be interested in preserving the debtor; however, the law requires that such an intention be supported by material security. In other words, if security for the performance of obligations in accordance with the debt repayment schedule is not provided, the court is not obliged to introduce judicial rehabilitation. Such an approach is aimed at ensuring that the idea of restoring

solvency does not turn into a risky and unfounded experiment at the expense of the interests of the creditors.

4. Under part four of the article being commented upon, until a rehabilitation manager, external manager or liquidation manager is appointed, the performance of their duties in full is entrusted to the person who previously performed the duties of temporary manager. This rule is aimed at ensuring procedural continuity, since a certain amount of time may elapse between the completion of the observation procedure and the beginning of the next stage, as well as the official appointment of a new manager. If, during this period, there is no responsible person, a dangerous gap would arise in the matters of safeguarding the debtor's property, controlling documentation and carrying out the requisite organizational actions. Therefore, the Law, in order to ensure the continuity of powers during the transitional period, entrusts them to the former temporary manager. This provision is of great practical importance. In insolvency cases, it is precisely during the transitional period that the risk of asset withdrawal, concealment of documents, alteration of the condition of property or other abuses particularly increases. Preserving the powers of the temporary manager until a new manager is appointed makes it possible to minimize such risks and ensures the institutional stability of the management of the case. Thus, by means of this provision, the Law ensures not only the procedural but also the financial and organizational security of the procedure.

5. Under part five of this article, the observation procedure is terminated from the moment the court adopts a decision to declare the debtor bankrupt and open liquidation proceedings, or introduces the judicial rehabilitation procedure or external management, or approves a settlement agreement. This rule ensures legal certainty, since establishing the moment at which observation ends is of decisive importance for the subsequent redistribution of the powers, rights and duties of the participants in the case. It is precisely from this moment that the case passes into a new legal regime: either the liquidation procedure begins, or a rehabilitation procedure is applied, or the proceedings are terminated in connection with the approval of a settlement agreement.

It follows from this provision that observation is not an independent and lengthy state but a preparatory stage strictly limited by law. Its task consists in creating the basis for adopting a further decision; once this aim is achieved, the observation procedure is completed. Such an approach reflects the stage-by-stage and systematic character of insolvency procedures: each stage has its own purpose, upon the accomplishment of which a different legal regime begins to operate.

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34. In accordance with part two part two of Article 92 of the Law, if the first meeting of creditors has not adopted a decision to apply one of the insolvency procedures, or if none of its decisions has been submitted to the court within the period established by Article 16 of the Law, the court, where signs of permanent insolvency are present, adopts a decision to declare the debtor bankrupt and commence liquidation proceedings, unless otherwise provided for by that same article. Where there are no signs of permanent insolvency, the court returns the submitted materials for the consideration at the meeting of creditors of the question of introducing one of the restoration procedures in respect of the debtor. Courts should bear in mind that, with respect to the return of the submitted materials, a ruling is issued in which a period is established within which the meeting of creditors must consider the question of introducing one of the restoration procedures in respect of the debtor. Where, within the period established by the court, the meeting of creditors does not adopt a decision to apply one of the insolvency procedures, or where none of its decisions is submitted to the court, the court adopts a decision to declare the debtor bankrupt and commence liquidation proceedings.

The article being commented upon comprehensively governs the grounds for completing the observation procedure, the judicial decisions adopted after the conclusion of this stage, the mechanisms applied in the absence of a decision of the meeting of creditors, the means of preserving the possibility of rehabilitating the debtor, the procedure for the transfer of managerial powers, as well as the moment of termination of the observation procedure. This provision concludes observation as the central preparatory stage of an insolvency case and ensures a legally certain and uninterrupted transition to the subsequent procedure. In this connection, it performs the function of the logical conclusion of the entire observation procedure and of a kind of "bridge" to the subsequent stages of the insolvency proceedings.

CHAPTER 9. JUDICIAL REHABILITATION PROCEDURE

Article 93. Petition to Introduce the Judicial Rehabilitation Procedure

In the course of the observation procedure the debtor, the founders (participants) or the owner of the debtor's property as well as a third party (parties) shall have the right to apply to the first meeting of creditors with a petition to apply to the court for the introduction of the judicial rehabilitation procedure or to apply directly to the court with a petition to introduce the judicial rehabilitation procedure.

The debtor's petition to introduce the judicial rehabilitation procedure must be accompanied by a judicial rehabilitation plan for the debtor specifying the proposed term of the judicial rehabilitation procedure and a debt repayment schedule.

Persons who have applied to the meeting of creditors with a petition to apply to the court for the introduction of the judicial rehabilitation procedure shall be obliged to provide the said petition and the documents attached thereto to the interim manager no later than two weeks before the date of the meeting of creditors in order to afford the creditors the opportunity to familiarize themselves with the said documents.

The petition of the founders (participants) or the owner of the debtor's property to introduce the judicial rehabilitation procedure must be accompanied by a judicial rehabilitation plan, a debt repayment schedule and the minutes of the general meeting of the founders (participants) of the debtor. The minutes of the general meeting must contain a list of the founders (participants) who voted in favor of introducing the judicial rehabilitation procedure as well as documents on the provision by these persons of security for the debtor's performance of the debt repayment schedule.

The petition of a third party (parties) to introduce the judicial rehabilitation procedure must be accompanied by a debt repayment schedule and evidence of the provision by the third party (parties) of security for the debtor's performance of the debt repayment schedule.

When the persons specified in part one of this article apply to the meeting of creditors with a petition to apply to the court for the introduction of the judicial rehabilitation procedure, the security for the debtor's performance of the debt repayment schedule provided by each of them shall be determined by an agreement between them.

The commented article establishes the procedure for submitting to the court a petition to introduce the judicial rehabilitation procedure.

1. In accordance with Article 3 of the Law, judicial rehabilitation is a procedure applied by the court with respect to a debtor-legal person in order to restore its solvency and repay its debt to creditors without transferring the powers to manage the debtor's affairs to a rehabilitation manager. As a general rule, in accordance with the judicial rehabilitation plan and the debt repayment (or payment) schedule, the

debtor is afforded the opportunity of deferral and installment of debt repayment in exchange for the provision of security (pledge, surety, guarantee). The judicial rehabilitation procedure is applied only with respect to legal persons, and the powers to manage the debtor's affairs are retained by the management bodies of the debtor itself, in connection with which judicial rehabilitation is recognized as a procedure of passive recovery. Within the framework of this procedure, the rehabilitation manager exercises control over the debtor's timely performance of the creditors' claims. Judicial rehabilitation makes it possible to rehabilitate the debtor and serves to preserve the debtor, provided that the creditors' claims are fully satisfied. Judicial rehabilitation may be introduced only where the grounds provided for by law are present: upon the petition of creditors and upon the petitions of interested third parties (where they provide the necessary security). Unlike other procedures in an insolvency case, judicial rehabilitation provides for the active participation of interested persons. In doing so, third parties provide security in order to support the debtor.

The debtor, the founders (participants) of the debtor or the owner of the debtor's property, the authorized state body (on the basis of part three of Article 92 of the Law) as well as a third party (parties) shall have the right to apply with a petition to introduce the judicial rehabilitation procedure to the creditors or the meeting of creditors or directly to the court.

2. This provision establishes a mandatory requirement for the introduction of judicial rehabilitation (the stage of the debtor's financial restoration). When applying to the court with a petition to introduce judicial rehabilitation, the debtor must not confine itself to a mere general application but is obliged to submit a specific and substantiated plan. In doing so, the petition must necessarily be accompanied by: a judicial rehabilitation plan specifying the proposed term of judicial rehabilitation and a debt repayment schedule indicating how and in what order the debts will be repaid.

The purpose of this requirement is to afford the court and the creditors the opportunity to assess whether the restoration of the debtor is realistic or not. If such a plan is absent or is indefinite and unsubstantiated, the court may not recognize the existence of sufficient grounds for introducing judicial rehabilitation. In other words, this provision requires the debtor not to make a promise of "I will mend my ways" but to provide concrete calculations and a practical plan.

3. Part three of this article specifies the time period and procedure for applying to the first meeting of creditors with a petition to introduce judicial rehabilitation. The persons specified in part one of this article shall be obliged to submit the petition itself and the documents attached thereto to the interim manager no later than two weeks before the date of the meeting of creditors, which affords the creditors the opportunity to familiarize themselves with the documents. Filing the petition without observing the said time period and procedure results in the question of introducing judicial rehabilitation not being considered at the meeting of creditors. This is because, in such a case, notification of the creditors within the time periods provided

for by Article 14 of the Law, the proper performance of the duties imposed on the interim manager, and the preliminary formation of the agenda of the first meeting of creditors are not ensured. The interim manager shall be obliged to afford the creditors the opportunity to familiarize themselves with the said documents before the first meeting of creditors is held.

In the event of violation of the established time period and procedure for filing the petition or where the time periods are missed, the interested person retains the right to apply to the court with a request to introduce judicial rehabilitation.

At the first meeting, the creditors study the petition and the documents submitted together with it and may decide to apply to the economic court with a petition to introduce judicial rehabilitation or adopt another decision. In the first case, on the basis of the decision of the meeting of creditors, the economic court issues a ruling on the introduction of judicial rehabilitation.

If the first meeting of creditors has decided that another procedure needs to be introduced, judicial rehabilitation may be introduced only in the cases specified in part three of Article 92 of the Law. In the cases provided for by law, interested persons may apply to the economic court with a petition to introduce judicial rehabilitation. Thus, judicial rehabilitation may be carried out even regardless of the will of the creditors. In doing so, a mandatory condition is the provision by the interested persons of security for the performance of obligations in accordance with the debt repayment schedule.

A petition to introduce judicial rehabilitation may be filed by interested persons during the observation procedure. After the expiry of the observation period, such a petition cannot be filed, since the ruling on the introduction of judicial rehabilitation may be adopted only after the completion of the observation procedure.

4. Part four of this article establishes the procedure for filing a petition to introduce the judicial rehabilitation procedure by the founders (participants) of the debtor or the owner of the debtor's property. According to it, the founders (participants) of the debtor or the owner of the debtor's property must attach to the petition a judicial rehabilitation plan, a debt repayment schedule, and the minutes of the general meeting of the founders (participants) of the debtor. Thus, in this situation, a general meeting of the founders (participants) of the debtor must be convened at which the question of the advisability of introducing the judicial rehabilitation procedure must be considered. The minutes of the general meeting shall also indicate the list of founders (participants) who voted in favor of introducing the judicial rehabilitation procedure as well as documents confirming the provision by these persons of security for the performance of the debt repayment schedule.

If the petition is filed by the owner of the debtor's property, the decision to file the petition is adopted by the owner of the property or another authorized person, and it must also specify the debt repayment schedule and information on the security provided.

5. A petition to introduce judicial rehabilitation may be filed by a third party or third parties. When a petition is filed by third parties, it must be coordinated with the debtor. The petition of a third party (parties) to introduce the judicial rehabilitation procedure shall be accompanied by a debt repayment schedule and documents confirming the provision by the third party (parties) of security for the debtor's performance of the debt repayment schedule. The third party shall be obliged to provide security for the debtor's performance of obligations in accordance with the debt repayment schedule.

6. Where interested persons apply to the meeting of creditors with a petition to introduce the judicial rehabilitation procedure and apply to the court with the corresponding application, the security for the debtor's performance of the debt repayment schedule shall be determined in accordance with an agreement between these persons, under which each of them secures the debtor's performance of the debt repayment schedule. If the petition is to be filed by several persons, then these persons, by concluding an agreement among themselves, shall coordinate the rights and obligations as well as the manner of providing the security.

See also: International Commentary, p. 757.

Article 94. Security for the Debtor's Performance of Obligations in Accordance with the Debt Repayment Schedule

The debtor's performance of obligations in accordance with the debt repayment schedule may be secured in the manner provided for by legislation.

The debtor's obligations to perform the debt repayment schedule shall be deemed secured from the moment the court issues a ruling on the introduction of the judicial rehabilitation procedure.

An agreement on the provision of security for the performance of obligations shall be concluded in writing unless otherwise established by law. On the part of the creditors this agreement shall be signed by the representative of the meeting of creditors or the committee of creditors, and in the case of the introduction of the judicial rehabilitation procedure on the initiative of the court, by the rehabilitation manager, and on the other hand, by the persons who have provided security for the debtor's performance of obligations in accordance with the debt repayment schedule (hereinafter, the persons who have provided security for the performance of obligations).

The amount of the security provided for the performance of obligations must exceed by no less than twenty percent the amount of the debtor's obligations reflected in the balance sheet as of the last reporting date and in the debt repayment schedule drawn up on the basis of the claims entered in the register of creditors' claims before the holding of the meeting of creditors on the question of introducing the judicial rehabilitation procedure.

Property, including property rights, belonging to the debtor by right of ownership or by another property right may not serve as the subject of security for the debtor's performance of the debt repayment schedule.

Making changes to the debt repayment schedule as well as introducing a new insolvency procedure with respect to the debtor shall not constitute grounds for the termination of the security provided for the performance of obligations.

The commented article sets out the procedure for and grounds of securing the debtor's performance of obligations in accordance with the debt repayment schedule.

1. Security for the debtor's performance of obligations in accordance with the debt repayment schedule is provided on the basis of the provisions of the CC of the Republic of Uzbekistan on securing the performance of obligations (Chapter 22). According to part one of Article 259 of the CC, the performance of an obligation may be secured by a penalty, pledge, retention of the debtor's property, surety, guarantee, earnest money as well as other methods provided for by legislation or a contract. The scope of the rights and obligations of the parties to the contract as well as their liability depend on the chosen method of securing the performance of the obligation. The invalidity of an agreement on securing the performance of an obligation does not entail the invalidity of the obligation itself (the principal obligation). The invalidity of the principal obligation entails the invalidity of the obligation securing its performance.

2. Part two of this article specifies the moment from which the debtor's obligations to perform the debt repayment schedule are deemed secured by third parties. According to it, the obligation is deemed secured from the moment the court issues a ruling on the introduction of the judicial rehabilitation procedure, and the obligation of the person who has provided security arises from the moment the economic court issues a ruling on the introduction of judicial rehabilitation. It should be noted that the agreement on the provision of security enters into force not from the moment of its conclusion but from the date of issuance of the ruling on the introduction of the judicial rehabilitation procedure.

3. Part three of this article specifies that an agreement on the provision of security shall be concluded in writing unless legislation establishes a different procedure. By a different procedure in this case is meant the need for notarial certification and state registration of certain types of transactions. According to Article 366 of the CC, a contract subject to notarial certification or state registration shall be deemed concluded from the moment of its notarial certification or registration, and if both notarial certification and state registration are required—from the moment of its registration. If the parties have agreed to conclude a contract in a particular form, even though such form is not provided for this type of contract by law, the contract shall be deemed concluded after it has been given the agreed form.

It is also specified who exactly signs the agreement on the provision of security: on the part of the creditors, by the representative of the meeting of creditors or the committee of creditors, and in the case of the introduction of the judicial rehabilitation procedure on the initiative of the court, by the rehabilitation manager; on the other hand, by the persons who have provided security for the debtor's

performance of obligations in accordance with the debt repayment schedule. It should be noted that, although the executors of the judicial rehabilitation plan and the debt repayment schedule are the management bodies of the debtor, their consent (signatures) is not required when this agreement is drawn up. The agreement may include the method of security, the amount of security, the rights and obligations of the parties, liability as well as other terms.

4. Part four of this article specifies the amount of security, namely: before the holding of the meeting of creditors on the question of introducing the judicial rehabilitation procedure, the amount of security must be at least twenty percent greater than the amount specified in the debt repayment schedule drawn up on the basis of the claims reflected in the balance sheet as of the last reporting date and included in the register of creditors' claims. Thus, the amount of security is required to be no less than the claims included in the register of creditors' claims but to exceed them by at least twenty percent.

5. This provision determines which property may not be used to secure the performance of the debt repayment schedule. Property belonging to the debtor (including property rights) may not be pledged or used as security for the debtor's own performance of the debt repayment schedule. This is because this property already belongs to the debtor and constitutes the common asset pool in the interests of all creditors. In doing so, the debtor may not designate its own property as "security," as security, as a rule, the property of a third party or the provision of additional guarantees is required.

6. A change in insolvency procedures and the making of changes to the debt repayment schedule do not affect the obligation of the person who has provided security, and it retains its force. If another procedure in an insolvency case is introduced with respect to the debtor (external management or liquidation proceedings, and also if changes are made to the debt repayment schedule, the obligation of the person who has provided security is not terminated. In doing so, the liability of the person who has provided security may arise, and the subject of the security may be foreclosed upon.

See also: International Commentary, p. 758.

Article 95. Procedure for Introducing the Judicial Rehabilitation Procedure

The judicial rehabilitation procedure shall be introduced by the court on the basis of a decision of the meeting of creditors, except in the cases provided for by part three of Article 92 of this Law.

The court's ruling on the introduction of the judicial rehabilitation procedure must specify the term of the judicial rehabilitation procedure, contain the debt repayment schedule approved by the court, information on the persons who have provided security for the performance of obligations, on the amount and forms of such security, on the appointment of the rehabilitation manager and on the amount of his remuneration.

The court's ruling on the introduction of judicial rehabilitation may be appealed (protested). The appeal (protest) of this ruling shall not suspend its execution.

The judicial rehabilitation procedure shall be introduced for a term of no more than twenty-four months.

The commented article establishes the grounds and procedure for introducing the judicial rehabilitation procedure, in particular its application by the court on the basis of a decision of the meeting of creditors, the information that must be specified in the ruling on the introduction of judicial rehabilitation, as well as the term of judicial rehabilitation.

1. The economic court introduces judicial rehabilitation in the following cases:

a) in accordance with a decision of the meeting of creditors. In this case, the advisability of introducing the procedure chosen by the creditors is not considered, since the creditors have agreed to a deferral of the performance of the debtor's obligations. In doing so, the existence of security is not mandatory. According to part one of Article 92 of the Law, the court, on the basis of a decision of the first meeting of creditors, unless otherwise provided for by this article, adopts a decision to declare the debtor bankrupt and to institute liquidation proceedings or issues a ruling on the introduction of the judicial rehabilitation or external management procedure, or approves a settlement agreement and terminates the insolvency proceedings;

b) on the basis of a petition of interested persons in accordance with a decision of the meeting of creditors. In this case, the provision of security is mandatory;

c) if the first meeting of creditors has decided to apply to the court with a petition to declare the debtor bankrupt and to institute liquidation proceedings, or if none of its decisions has been submitted to the court, upon the petition of interested persons, subject to the provision of security (part three of Article 92 of the Law).

2. Part two of this article specifies what information must be reflected in the court's ruling on the introduction of the judicial rehabilitation procedure. In particular, this ruling specifies: the term of the judicial rehabilitation procedure; the debt repayment schedule approved by the court; information on the persons who have provided security for the performance of obligations, on the amount and forms of such security; information on the appointment of the rehabilitation manager as well as on the amount of remuneration paid to him.

3. Judicial rehabilitation is introduced by a ruling of the economic court on the introduction of the judicial rehabilitation procedure, and this ruling is subject to immediate execution. In accordance with part two of Article 108 of the Law, the court's ruling on the introduction of the external management procedure is subject to immediate execution. The procedure established for the introduction of the external management procedure is applied by analogy of law also to the judicial rehabilitation procedure. Part three of Article 27 of the Law of the Republic of Uzbekistan "On the Execution of Judicial Acts and Acts of Other Bodies" specifies that in cases where a

judicial act is subject to immediate execution, it must be executed starting from the day following the day of its issuance. According to part three of Article 199 of the EPC, unless the EPC establishes a different time period, a complaint (protest) against a ruling may be filed within a time period not exceeding one month from the day the ruling is issued. The filing of a complaint (protest) against the court's ruling on the introduction of the judicial rehabilitation procedure shall not suspend its execution.

4. The term of the judicial rehabilitation procedure may not exceed twenty-four months. In accordance with Article 108 of the Law, the total term of the judicial rehabilitation and external management procedures must not exceed thirty months. If more than eighteen months have passed from the date of introduction of the judicial rehabilitation procedure until the day the court considers the question of introducing the external management procedure, the court adopts a decision to declare the debtor bankrupt and to institute liquidation proceedings.

See also: International Commentary, p. 758.

Article 96. Consequences of Introducing the Judicial Rehabilitation Procedure

During the judicial rehabilitation procedure the management bodies of the debtor shall exercise their powers with the restrictions established by this Chapter.

At the moment of introduction of the judicial rehabilitation procedure:

previously adopted measures to secure the creditors' claims shall be canceled;

the attachment of the debtor's property and other restrictions on the debtor's powers to dispose of the property belonging to it shall be imposed exclusively within the framework of the insolvency procedure;

the payment of all types of current tax payments arising in the course of insolvency (with the exception of taxes on wages and payments equivalent thereto) shall be suspended and shall be paid upon the expiry of the term of the judicial rehabilitation procedure. In this case the said tax debts shall be payable in equal installments within six months from the date the court approves the report of the rehabilitation manager and the ruling on the termination of the insolvency proceedings with respect to the debtor;

a penalty (fine, late-payment interest) and other economic (financial) sanctions for the non-performance or improper performance of monetary obligations and on taxes and duties arising at the moment of the judicial rehabilitation procedure as well as the interest payable shall not be charged.

On the amount of the creditor's claim under monetary obligations and (or) taxes and duties subject to satisfaction in accordance with the debt repayment schedule, interest shall be charged in the manner and amount provided for by Article 327 of the Civil Code of the Republic of Uzbekistan. This interest shall be charged on the amount of the creditor's claim from the moment the court issues the ruling on the introduction of judicial rehabilitation until the moment the creditor's claim is repaid, and if such repayment has not occurred, until the

moment a decision is adopted to declare the debtor bankrupt and to commence liquidation proceedings.

Upon a petition of the meeting of creditors, the persons who have provided security for the performance of obligations or the rehabilitation manager, containing information on the non-performance or improper performance by the manager of the debtor of the judicial rehabilitation plan or on the commission by him of acts (omissions) that violate the rights and legitimate interests of the debtor, the creditors or the persons who have provided security for the performance of obligations, the court shall have the right to remove the manager of the debtor from the performance of his duties. In these cases the court shall have the right to impose the performance of the duties of the manager of the debtor on the rehabilitation manager. The court issues a ruling on the removal of the manager of the debtor from the performance of his duties, which may be appealed (protested).

The founders (participants) or the owner of the debtor's property shall not have the right, without the consent of the meeting of creditors or the committee of creditors, to adopt decisions on the reorganization (merger, accession, division, discharge, transformation) and liquidation of the debtor, and the debtor shall not have the right to enter into transactions:

connected with the lease or pledge of immovable property, with the contribution of the said property as a contribution to the charter fund (charter capital) of business companies or the disposal of such property in another manner;

major transactions;

connected with the receipt and issuance of loans (credits), the issuance of sureties and guarantees, the assignment of claims, the transfer of debt as well as the conclusion of a contract for the trust management of the debtor's property;

in the commission of which the rehabilitation manager or the creditors have an interest in the manner established by legislation.

The court's ruling on the introduction of the judicial rehabilitation procedure may not serve as a ground for the suspension of, or refusal to perform, the debtor's contracts concluded before the institution of the insolvency case. The performance of contracts concluded before the institution of the debtor's insolvency case that are deemed important for the continuation of the debtor's activity shall be continued by the debtor or the rehabilitation manager, except in the cases provided for by this Law.

In this case, an agreement of the parties on the rescission of, or refusal to perform, contracts concluded by the debtor in connection with the introduction of the judicial rehabilitation procedure with respect to the debtor shall be deemed invalid, except in the cases provided for by this Law.

The rehabilitation manager and the creditors shall have the right to demand that the debtor's transactions be declared invalid in the manner established by legislation.

The rehabilitation manager and the creditors shall have the right to demand the rescission of contracts concluded after the institution of the insolvency case or within the twenty-four months preceding the filing of the application to institute the insolvency case with respect to the debtor, or of a contract that has

not been performed in whole or in part, where one of the following circumstances exists:

the performance of the contracts will entail losses for the debtor and (or) will violate the rights and legitimate interests of the debtor, the creditors or the persons who have provided security for the performance of obligations, as compared with similar contracts concluded in comparable circumstances;

the contract has been concluded for a term of more than one year or is calculated to produce positive results for the debtor only in the long term;

the contract leads to the preferential satisfaction of the claims of one creditor as compared with the claims of other creditors.

A demand for the rescission of contracts that have not been performed in whole or in part may also be made where other circumstances exist that impede the restoration of the debtor's solvency.

The commented article determines the legal consequences of the judicial rehabilitation procedure, including the restriction of the powers of the debtor's management bodies, the cancellation of measures to secure the creditors' claims, the suspension of tax payments and the subsequent introduction of the procedure for their installment and phased payment as well as the mechanisms for restoring the enterprise's solvency through the rescission of certain contracts and the continued performance of important contracts.

1. During the judicial rehabilitation procedure, the management bodies of the debtor continue to carry out their activity; however, their powers are restricted. These restrictions extend to the powers of such management bodies as the general meeting, the supervisory board and the executive bodies. In accordance with Article 29 of the Law of the Republic of Uzbekistan "On Limited Liability Companies," the general meeting of the participants of the company is the supreme management body of the company, the charter of the company may provide for the creation of a supervisory board of the company, and the current management of the company's activity is carried out by the sole executive body of the company or the collegial executive body of the company. In accordance with Article 57 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of the Rights of Shareholders," the management bodies of the company are the general meeting of shareholders, the supervisory board and the executive body.

2. From the moment the ruling on the introduction of the judicial rehabilitation procedure is issued, certain consequences arise, in particular, the satisfaction of the creditors' claims may be deferred and (or) made in installments during the judicial rehabilitation. Part two of this article specifies that a number of consequences arise with the introduction of judicial rehabilitation.

2.1. Upon the introduction of the judicial rehabilitation procedure, the measures to secure the creditors' claims are canceled. In accordance with Article 47 of the Law, the court in an insolvency case shall have the right, on the basis of an application of a person participating in the insolvency case, to adopt measures to secure the creditors'

claims in accordance with the EPC. In addition to the measures provided for by the EPC, the court shall have the right to prohibit the commission of transactions without the consent of the judicial manager, to impose on the debtor the obligation to transfer for safekeeping to third parties securities, currency valuables and other property as well as to adopt other measures aimed at ensuring the preservation of the debtor's property. According to Article 94 of the EPC, measures to secure a claim may be: 1) the attachment of property or funds belonging to the defendant; 2) prohibiting the defendant from performing certain actions; 3) prohibiting other persons from performing certain actions connected with the subject matter of the dispute; 4) the suspension of recovery under an enforcement document or another document under which recovery is carried out in an indisputable (acceptance-free) manner that is being contested by the plaintiff; 5) the suspension of the sale of property where an application for the release of property from attachment is being considered; 6) imposing on the defendant the obligation to perform certain actions in order to prevent damage to or deterioration of the disputed property; 7) the transfer of the disputed property to a third party (a custodian). The cancellation of the said interim measures creates for the debtor the opportunity to restore its financial position.

2.2. The restrictions on the attachment and disposal of the debtor's property are applied only within the framework of an insolvency case. According to part five of this article, the founders (participants) of the debtor or the owner of the debtor's property as well as the debtor itself shall not have the right, without the consent of the meeting of creditors or the committee of creditors, to enter into the following transactions: transactions connected with the lease or pledge of immovable property, the contribution of the said property as a contribution to the charter fund (charter capital) of business companies or the disposal of such property in another manner; major transactions; transactions connected with the receipt and issuance of loans (credits), the provision of surety, the assignment of a claim in favor of another person, the transfer of debt to another person as well as the conclusion of a contract for the trust management of the debtor's property; transactions in the commission of which the rehabilitation manager or the creditors have an interest in the manner established by legislation.

In accordance with part three of Article 118 of the Law, major transactions are transactions entailing the disposal of the debtor's immovable property or other property whose book value amounts to more than ten percent of the book value of the debtor's assets at the moment the transaction is made. Thus, the restrictions on the attachment and disposal of the debtor's property are directly provided for by the Law itself, and the establishment of other prohibitions is not permitted.

2.3. All current tax payments—payments arising in the course of an insolvency case (with the exception of taxes on wages and payments equivalent thereto)—are suspended during judicial rehabilitation. This is necessary in order to reduce the financial burden on the debtor. After the completion of judicial rehabilitation, the report of the rehabilitation manager on the restoration of the debtor's solvency is approved, and the court issues a ruling on the termination of the proceedings. From

this date, the taxes not paid during the judicial rehabilitation period are paid in equal installments within six months.

2.4. For the non-performance or improper performance of monetary obligations and (or) obligations on taxes and duties arising during the judicial rehabilitation procedure, a penalty (fine, late-payment interest) and other economic (financial) sanctions, as well as the interest payable, are not applied. This is aimed at reducing the financial burden on the debtor.

3. According to part three of this article, on the amount of the creditor's claim under monetary obligations and (or) obligations on taxes and duties that are to be satisfied in accordance with the debt repayment schedule, interest is charged in the manner and amount provided for by Article 327 of the CC. According to Article 327 of the CC, for the use of another's funds as a result of their unlawful retention, evasion of their return, other delay in their payment, or unjust receipt or saving at the expense of another person, interest on the amount of these funds is payable. The amount of this interest is determined on the basis of the bank discount rate. Part three of the article also establishes the manner in which the said interest is included in the amount of the creditors' claims. This interest must be charged and included in the amount of the creditor's claim from the moment the court issues the ruling on the introduction of the judicial rehabilitation procedure until the moment the creditor's claim is satisfied, and if such satisfaction has not occurred, until the moment a decision is adopted to declare the debtor bankrupt and to commence liquidation proceedings.

4. Part four of this article sets out the rules connected with the removal of the manager of the debtor from the performance of his duties during the judicial rehabilitation procedure. According to it, the meeting of creditors, the persons who have provided security for the performance of obligations or the rehabilitation manager shall have the right to file with the court a petition stating that the manager of the debtor is not performing or is improperly performing the judicial rehabilitation plan or that the manager of the debtor is committing acts (omissions) that violate the rights and legitimate interests of the debtor, the creditors as well as the persons who have provided security for the performance of obligations. In accordance with this petition, the court may remove the manager of the debtor from the performance of his duties. If the manager of the debtor is removed from office by the court, the court may impose the performance of the duties of the manager of the debtor on the rehabilitation manager. The court issues a ruling on the removal of the manager of the debtor from office and the imposition of the performance of the duties of the manager on the rehabilitation manager. This ruling may be appealed (a protest may be brought against it).

5. It is advisable to consider part five of this article by dividing it into two aspects: during the judicial rehabilitation procedure, certain powers of the founders (participants) of the debtor or the owner of the debtor's property are restricted, and also during judicial rehabilitation, the debtor itself possesses restricted powers.

If there is consent of the meeting of creditors or the committee of creditors, the founders (participants) of the debtor or the owner of the debtor's property may adopt a decision on the reorganization of the debtor (merger, accession, division, discharge, transformation) and on its liquidation.

The debtor itself shall not have the right to make: a) transactions connected with the lease or pledge of immovable property, the contribution of this property as a contribution to the charter fund (charter capital) of business companies or another disposal of such property; b) major transactions (in accordance with part three of Article 118 of the Law, major transactions are transactions that entail the disposal of the debtor's immovable property or other property whose book value amounts to more than ten percent of the book value of the debtor's assets at the moment the transaction is made); c) transactions connected with the receipt and provision of loans (credits), the provision of surety, the assignment of a claim in favor of another person, the transfer of debt to another person as well as the conclusion of a contract for the trust management of the debtor's property; d) transactions in the commission of which the rehabilitation manager or the creditors have an interest in the manner established by legislation.

6. Part six of this article specifies that the performance of contracts concluded by the debtor before the institution of the insolvency case is not suspended and their performance may not be refused. The court's ruling on the introduction of the judicial rehabilitation procedure does not affect the performance of these contracts. The performance of contracts concluded before the institution of the insolvency case with respect to the debtor and having material significance for the continuation of the debtor's activity is carried out by the debtor or the rehabilitation manager.

7. Agreements of the parties on the suspension of the performance of contracts concluded by the debtor before the institution of the insolvency case, or on the refusal to perform them in connection with the introduction of the judicial rehabilitation procedure with respect to the debtor, are deemed invalid, except in the cases specified in part nine of this article.

8. The rehabilitation manager and the creditors shall have the right to demand that the debtor's transactions be declared invalid in the manner established by legislation, including on the grounds provided for by the Law (Chapter 6–invalidity of transactions).

9. The rehabilitation manager and the creditors shall have the right to demand the rescission of contracts concluded after the institution of the insolvency case or within the twenty-four months before the filing of the application to institute the insolvency case with respect to the debtor and not performed in whole or in part, where one of the following circumstances exists:

if the performance of the contracts causes harm to the debtor and (or), as compared with similar contracts concluded in comparable circumstances, violates the rights and legitimate interests of the debtor, the creditors or the persons securing the debtor's performance of obligations;

if the contract has been concluded for a term of more than one year or is aimed exclusively at producing a positive result for the debtor in the long term;

if the contract leads to the preferential satisfaction of the claims of one creditor as compared with the claims of other creditors.

10. The conditions for making a demand for the rescission of contracts that are not performed in whole or in part and are specified in part nine of this article are not exhaustive; such a demand may also be made where other circumstances exist that impede the restoration of the debtor's solvency.

See also: International Commentary, p. 758

Article 97. The Rehabilitation Manager

The candidacy of the rehabilitation manager shall be submitted to the court by the meeting of creditors or the persons who have provided security for the performance of obligations.

The rehabilitation manager shall act from the moment of introduction of the judicial rehabilitation procedure until the end of the judicial rehabilitation procedure or its early termination.

The rehabilitation manager may be released by the court upon his own application or the petition of the meeting of creditors or the persons who have provided security for the performance of obligations as well as in other cases provided for by this Law.

The court's ruling on the release of the rehabilitation manager from the performance of his duties with the simultaneous appointment of a new rehabilitation manager may be appealed (protested). The appeal (protest) of the said ruling shall not suspend its execution.

The termination of the insolvency proceedings in connection with the restoration of the debtor's solvency during the judicial rehabilitation procedure shall entail the termination of the rights and obligations of the rehabilitation manager.

If the court has issued a ruling on the introduction of the external management procedure or has adopted a decision to declare the debtor bankrupt and to commence liquidation proceedings, and also if another person has been appointed as the external manager or the liquidation manager, the rehabilitation manager shall continue to perform his duties until the moment the affairs are transferred to the external manager or the liquidation manager.

The commented article establishes the procedure for the appointment, release and termination of the powers of the rehabilitation manager, provides that his candidacy is submitted by the creditors or the persons who have provided security, that the term of his activity is connected with the judicial rehabilitation procedure as well as that he continues to perform his duties until the next manager is appointed.

1. The candidacy of the rehabilitation manager may be submitted to the court by the meeting of creditors or the persons who have provided security for the

performance of obligations. Upon the introduction of judicial rehabilitation, the economic court appoints the rehabilitation manager. He is approved simultaneously with the issuance by the economic court of the ruling on the introduction of judicial rehabilitation. The rehabilitation manager is not determined by the court independently; rather, the candidacy is proposed by the meeting of creditors or the persons who have guaranteed the debtor's performance of obligations. The court considers the person proposed by them and appoints him.

According to paragraph 12 of the Regulation on the Procedure for Issuing a Qualification Certificate to Judicial Managers, approved by Resolution of the Cabinet of Ministers No. 838 of 30 December 2025, a judicial manager must meet the following basic qualification requirements: have a higher education; have work experience of no less than two years in the field of economics, finance, accounting or audit, tax consulting or law; pass a qualification examination at an authorized organization. In addition, the following additional qualification requirements are imposed on a rehabilitation manager: persons carrying out the judicial rehabilitation procedure must have work experience as a third-category judicial manager of no less than twenty-four months and must not have had a decline in the judicial managers' rating below the sufficient level during the year, or must have work experience as a third-category judicial manager of no less than twelve months as well as prior experience of working in managerial positions (manager or deputy manager in state administration bodies or local government bodies, judicial bodies, manager in business companies and others) of no less than twenty-four months and, according to the judicial managers' rating, must have at least a sufficient level over three consecutive quarters.

2. Part two of this article specifies the period of activity of the rehabilitation manager, namely: he carries out his activity from the moment of introduction of the judicial rehabilitation procedure until the completion of the judicial rehabilitation procedure or its early termination. The rehabilitation manager carries out his functions depending on the period of operation of the judicial rehabilitation procedure.

3. Part three of the commented article specifies the persons who have the right to apply with an application for the release of the rehabilitation manager from office as well as the procedure for applying to the court. In doing so, it is required that an application of the rehabilitation manager himself for release from office be filed with the court or that a petition of the meeting of creditors or the persons who have provided security for the performance of obligations be received. In addition, in other cases provided for by the Law, the rehabilitation manager may be released from office by the court. In accordance with part two of Article 29 of the Law, the authorized state body exercises control over the activity of judicial managers in accordance with legislation and, where a systematic or one-time gross violation of legislation is detected in the activity of a judicial manager, applies to the court with an application for his release from the performance of his duties.

4. The court's ruling on the release of the rehabilitation manager from the performance of his duties with the simultaneous appointment of a new rehabilitation manager does not suspend the execution of this ruling; a complaint may be filed against the ruling (a protest may be brought).

5. This provision determines the logical completion of the judicial rehabilitation procedure. If, in the course of judicial rehabilitation, the debtor's solvency is restored and on this basis the court terminates the insolvency proceedings, this means that the debtor returns to ordinary economic activity. From this moment, the need for the participation of the rehabilitation manager ceases, since his main task was the financial restoration of the debtor. As a result, with the termination of the proceedings, all the rights and obligations of the manager are simultaneously terminated. Thus, this provision establishes that upon the successful completion of rehabilitation, the powers of the manager are terminated automatically.

6. This provision regulates the transitional period after the rehabilitation stage and is aimed at ensuring continuity of management. If external management is introduced by the court or the debtor is declared bankrupt, and the liquidation procedure commences, a new manager (external or liquidation) is appointed simultaneously. However, in order for the new manager to immediately take over all the affairs, a certain amount of time is required. Therefore, the rehabilitation manager does not terminate his powers immediately but continues to perform his duties until the moment of the official transfer of the affairs. This rule prevents financial and organizational disruptions, the loss of documents, or the emergence of gaps in management. The purpose of this provision is to ensure consistency of management and the uninterrupted protection of the interests of creditors.

Article 98. Rights of the Rehabilitation Manager

The rehabilitation manager shall have the right to:

demand from the manager of the debtor information on the current activity of the debtor, the progress of the implementation of the measures provided for by the judicial rehabilitation plan and the performance of the debt repayment schedule;

demand from the manager of the debtor the timely and full transfer of funds to repay the creditors' claims;

take part in the inventory-taking of property where it is carried out by the debtor;

exercise control over the debtor's timely performance of the creditors' current claims;

approve the debtor's transactions and decisions in the cases provided for by part five of Article 96 of this Law, and provide the creditors with information on the said transactions and decisions;

file with the court an application to declare the debtor's transactions invalid in the manner established by Articles 63, 64 and 65 of this Law;

appeal to the court against the debtor's actions in recognizing claims or confirming the grounds for recognizing claims as established, or against the debtor's inaction with respect to the consideration of the creditors' claims, in the cases and in the manner established by Articles 60 and 87 of this Law;

apply to the court with a petition for the removal of the manager of the debtor from the performance of his duties in the cases established by part four of Article 96 of this Law;

request from the manager, the founders (participants) of the debtor and (or) state bodies information and documents relating to the debtor;

make use of state services, including through state service centers, in order to ensure the performance of his powers, without prior payment;

apply to the court with a petition for the adoption of additional measures to ensure the preservation of the debtor's property, including for the transfer of property for safekeeping to third parties, as well as for the cancellation of such measures.

The rehabilitation manager may also have other rights in accordance with legislation.

The commented article sets out the rights of the rehabilitation manager.

1. This provision determines the powers of the rehabilitation manager and indicates that his main task consists in controlling the process of the debtor's financial restoration and protecting the interests of the creditors.

First of all, the rehabilitation manager has the right to constantly demand information from the manager of the debtor, to control the timely transfer of funds, and to ensure the performance of the debt repayment schedule. Thereby, he establishes systematic control over the current activity of the debtor and prevents the unlawful channeling of funds.

Secondly, he participates in the conduct of the inventory-taking of property, controls the timely satisfaction of the creditors' claims, approves certain transactions and may even take the initiative to have suspicious or unlawful transactions declared invalid in court. In addition, he has the right to appeal to the court against the actions (or inaction) of the debtor in recognizing or considering the creditors' claims.

Thirdly, where necessary, the rehabilitation manager may raise the question of removing the manager of the debtor from office, request information and documents from state bodies and from other sources as well as make use of state services free of charge. This enables him to manage the process effectively and adopt decisions on the basis of complete information.

Finally, he has the right to adopt additional measures to preserve the debtor's property, including to transfer it for safekeeping to third parties or to apply to the court with an application for the cancellation of such measures. In short, the rehabilitation manager is the central figure of this process, possessing powers of control, protection and initiative.

2. The rehabilitation manager may also possess other rights. For example, according to part one of Article 23 of the Law, a judicial manager has the right to:

convene the meeting of creditors;

demand the convening of the committee of creditors in the cases provided for by this Law;

apply to the court with statements of claim and other applications without the prior payment of the state duty;

receive remuneration in accordance with Article 26 of this Law;

engage other persons on a contractual basis to perform the duties imposed on him, with payment for their activity at the expense of the debtor's funds, unless the agreement concluded with the creditors provides otherwise;

make use of state services, including services rendered through state service centers, without prior payment;

obtain free of charge information from physical persons and legal persons (including from credit institutions) as well as from state bodies on the debtor's property, its accounts and deposits, including credit cards, electronic balances and electronic money transfers;

request from a debtor that is a physical person information on his activity in implementing the plan for the restructuring of the debt of a physical person;

obtain the information necessary for the performance of the duties imposed on him from the bodies of the state tax service and the customs bodies, the extrabudgetary funds, the bodies carrying out the state registration of documents for immovable property as well as from other authorized bodies in possession of the necessary information on the debtor enterprise and the property belonging to it;

apply to the court with an application for the early termination of the performance of his duties.

See also: International Commentary, p. 760.

Article 99. Duties of the Rehabilitation Manager

The rehabilitation manager shall be obliged to:

maintain the register of creditors' claims;

convene meetings of creditors in the cases provided for by Article 12 of this Law;

consider the reports on the progress of the implementation of the judicial rehabilitation plan and the debt repayment schedule provided by the debtor and submit the corresponding conclusions to the meeting of creditors;

provide, within a ten-day period, information on the financial condition of the debtor and (or) on his activity upon the demand of a creditor;

provide information on the progress of the implementation of the judicial rehabilitation plan to the meeting of creditors and the committee of creditors as well as to the authorized state body if there is a state share in the charter fund of the debtor.

The rehabilitation manager may also bear other duties in accordance with legislation.

The commented article sets out the duties of the rehabilitation manager.

1. Part one of this article specifies the duties of the rehabilitation manager, whereby the rehabilitation manager organizes the process of the financial recovery of the debtor enterprise and maintains the register of the claims of all creditors, ensuring an accurate accounting of the debtor's obligations. He convenes the meeting of creditors in the cases provided for by law and creates the conditions for adopting important decisions. He also constantly controls the debtor's performance of the approved judicial rehabilitation plan and the debt repayment schedule, as well as prepares analytical conclusions on this matter. These conclusions are provided to the meeting of creditors and serve as a basis for adopting decisions. Upon the demand of a creditor, the manager is obliged, within ten days, to provide information on the financial condition and activity of the debtor. In addition, he regularly provides the meeting of creditors, the committee of creditors and, in necessary cases, the authorized state body with information on the implementation of the rehabilitation plan.

2. The rehabilitation manager may also have other duties. This is a general provision, and other articles of the law or by-laws may impose additional duties on the rehabilitation manager. According to part three of Article 26 of the Law, a judicial manager shall be obliged to:

adopt measures to ensure the preservation of the debtor's property;

form and maintain the register of creditors' claims;

analyze the financial condition of the debtor;

upon the demand of a creditor, provide, within a ten-day period, information on the financial condition of the debtor and (or) on his activity;

carry out actions and adopt measures to detect signs of fictitious insolvency, the concealment of insolvency or the deliberate bringing about of insolvency, as well as report the detection of such signs to the meeting of creditors, the court, the authorized state body and the law enforcement bodies;

exercise control over the implementation of the plan for the restructuring of the debt of a debtor that is a physical person;

control the timely and full payment of funds by a debtor that is a physical person for the full satisfaction of the creditors' claims;

perform the duties imposed on him by judicial acts.

See also: International Commentary, p. 760.

Article 100. The Judicial Rehabilitation Plan and the Debt Repayment Schedule

The judicial rehabilitation plan shall be prepared by the manager of the debtor, the founders (participants) of the debtor or the owner of the debtor's property.

The judicial rehabilitation plan must specify concrete measures to restore the debtor's solvency.

The judicial rehabilitation plan must provide for:

measures to restore the debtor's solvency, the conditions for and procedure of implementing these measures, the expenses for their implementation and the debtor's other expenses;

a debt repayment schedule;

the amount and term of the guaranteed compensation that may be received, in the event of the debtor's liquidation, by a creditor who voted against the approval of the judicial rehabilitation plan or a creditor who does not have the right to vote on the approval of this plan;

the period for restoring the debtor's solvency.

The judicial rehabilitation plan may contain measures to restore the debtor's solvency provided for by Article 125 of this Law.

The term for implementing the judicial rehabilitation plan may not exceed the term provided for in the court's ruling on the introduction of the judicial rehabilitation procedure.

The judicial rehabilitation plan must provide for the methods of obtaining, in the course of judicial rehabilitation, the funds necessary for the debtor to satisfy the creditors' claims in accordance with the debt repayment schedule. The judicial rehabilitation plan must be approved by the meeting of creditors.

When the question of approving the judicial rehabilitation plan is considered, the creditors of the first and second groups shall take part in the voting.

A decision of the meeting of creditors to approve the judicial rehabilitation plan shall be deemed adopted if the majority of creditors in each of the first and second groups have voted in favor of it. In doing so, a creditor who has the right to vote and has voted against the approval of the judicial rehabilitation plan, and a creditor who does not have the right to vote, shall have the right to receive guaranteed compensation at least equal to that which they could have received in the event of the debtor's liquidation.

If the creditors of each of the first and second groups have not adopted a decision to approve the judicial rehabilitation plan, and also if the necessary number of votes of the creditors of one of the groups has not been provided during the voting, a decision shall be adopted to apply to the court with a petition to declare the debtor bankrupt and to commence liquidation proceedings.

The judicial rehabilitation plan may provide for a reduction of the charter fund (charter capital) of the debtor, the issuance and placement of an additional issue of shares of the debtor, the contribution of an additional share to the

charter fund (charter capital) and the conversion of the creditors' claims into shares in accordance with Article 130 of this Law.

The judicial rehabilitation plan may provide for the sale of the enterprise (business) or part of the debtor's property in the manner established by Articles 126 and 127 of this Law.

Creditors who have voted against the approval of the judicial rehabilitation plan may, in order to protect their rights, engage experts to verify:

the right to receive guaranteed compensation at least equal to that which a creditor who has the right to vote and has voted against the approval of the judicial rehabilitation plan, and a creditor who does not have the right to vote, could have received in the event of the debtor's liquidation;

the existence of the possibility of the successful implementation of the judicial rehabilitation plan;

the preferential right of the creditors secured by the debtor's property over other creditors.

If the debtor has submitted, for the judicial rehabilitation plan, false or misleading information on property or has concealed information relating to its activity and (or) work, the meeting of creditors may adopt a decision to cancel the judicial rehabilitation plan and to terminate the judicial rehabilitation procedure early and to file with the court a petition to introduce the external management procedure or to declare the debtor bankrupt and to commence liquidation proceedings.

The court, on the basis of the petition of the meeting of creditors, issues a ruling on the early termination of the judicial rehabilitation procedure and, accordingly, on the introduction of the external management procedure or adopts a decision to declare the debtor bankrupt and to commence liquidation proceedings.

The management body of the debtor and the rehabilitation manager shall be responsible for the implementation of the approved judicial rehabilitation plan.

The meeting of creditors and (or) the committee of creditors shall exercise control over the implementation of the judicial rehabilitation plan.

A creditor shall have the right to request from the rehabilitation manager any information connected with the implementation of the judicial rehabilitation plan.

The judicial rehabilitation plan may provide for the full or partial release of the debtor from its debts or their modification.

The full or partial release of the debtor from its debts or their modification shall be carried out with the consent of all creditors.

If any creditor opposes the full or partial release of the debtor from its debts or their modification, the remaining creditors shall have the right to offer to buy out its claims in accordance with the register of creditors' claims.

A creditor who opposes the full or partial release of the debtor from its debts or their modification shall be obliged to accept the condition offered by the remaining creditors.

The debt repayment schedule must provide for the repayment of the debt to all creditors, unless otherwise provided for by this Law. The debt repayment schedule shall be subject to approval by the court.

The satisfaction of the creditors' claims under the debtor's current payments arising in the course of the judicial rehabilitation procedure shall be carried out in the manner established by Articles 149, 150 and 185 of this Law.

The debtor shall have the right to perform the debt repayment schedule ahead of schedule.

The commented article sets out the procedure for drawing up and approving the judicial rehabilitation plan and the debt repayment schedule.

1. Judicial rehabilitation is a procedure aimed at the financial recovery of the debtor, and it must provide for certain guarantees and conditions of such recovery. As a general rule, such guarantees are the provision to the debtor of the opportunity to perform obligations in installments and on a deferred basis, as well as the security provided by interested persons, at the expense of which the debtor's obligations to the creditors are performed in accordance with the debt repayment schedule. Unlike the judicial rehabilitation plan, the drawing up of the debt repayment schedule is mandatory. Part one of the commented article specifies that the judicial rehabilitation plan is prepared by the manager of the debtor, the founders (participants) of the debtor, or the owner of the debtor's property.

2. The judicial rehabilitation plan may include legal, economic, and organizational methods of rehabilitating the debtor, and the plan must specify concrete measures to restore the debtor's solvency.

3. Part three of this article specifies the information that must be indicated in the judicial rehabilitation plan. It must reflect: measures to restore the debtor's solvency, the conditions for and procedure of carrying out these measures, the expenses for their implementation as well as the debtor's other expenses; the debt repayment schedule; the amount and term of payment of the guaranteed compensation that may be received by a creditor who voted against the approval of the judicial rehabilitation plan or a creditor who does not have the right to vote on the approval of this plan, in the event of the debtor's liquidation; the period for restoring the debtor's solvency. It should be noted that when the judicial rehabilitation plan is developed, the debt repayment schedule is also included in its composition.

4. The judicial rehabilitation plan may reflect the following measures to restore the debtor's solvency provided for by Article 125 of the Law: the re-profiling of production; the closure of unprofitable production facilities; the recovery of accounts receivable; the sale of part of the debtor's property; the assignment by the debtor of a claim in favor of another person; the performance of the debtor's obligations by third parties; the placement of additional shares of the debtor; the sale of the enterprise (business) of the debtor as a property complex; the obtaining of loans from commercial banks and financial institutions as well as the attraction of funds from persons interested in the continuation of the debtor's activity; the adoption of a decision to increase the charter fund (charter capital) of a joint-stock company at the expense of accounts payable (the exchange of debt for shares) by a three-quarters

majority (a qualified majority) of the votes of the shareholders participating in the general meeting of shareholders and being holders of voting shares; the replacement of the debtor's assets and other measures.

5. As a rule, the court's ruling on the introduction of the judicial rehabilitation procedure specifies the total term of judicial rehabilitation, and the term for implementing the judicial rehabilitation plan must not exceed the term specified in the court's ruling.

6. The judicial rehabilitation plan must provide for the methods of obtaining by the debtor, in the course of the judicial rehabilitation procedure, the funds necessary to satisfy the creditors' claims in accordance with the debt repayment schedule. According to part one of Article 115 of the Law, the external manager shall be obliged to open a special account for conducting external management and carrying out settlements with creditors.

In addition, in accordance with Article 148 of the Law, the liquidation manager, in the course of liquidation proceedings, shall be obliged to use the debtor's single account in soums and the debtor's single account in foreign currency (hereinafter, the debtor's single accounts). Other accounts of the debtor at banks that were known at the moment of commencement of liquidation proceedings, as well as those detected in the course of liquidation proceedings, must be closed by the liquidation manager immediately after their detection. The balances of funds in such accounts of the debtor must be transferred to the debtor's single accounts. Funds received in the course of liquidation proceedings are also transferred to the debtor's single accounts.

The special account for settlements with creditors that is opened during the external management and liquidation proceedings may also be maintained during the judicial rehabilitation procedure.

The judicial rehabilitation plan must be approved by the meeting of creditors. The decision to approve the judicial rehabilitation plan and to endorse the debt repayment schedule falls within the exclusive competence of the meeting of creditors. When the question of approving the judicial rehabilitation plan and endorsing the debt repayment schedule is considered at the meeting of creditors, the right to vote belongs to: the first group—creditors under the debtor's obligations secured by pledge, and the second group—creditors under claims against the debtor arising from non-pledge contracts, contracts for the supply of products, the performance of work and the rendering of services as well as contracts of compulsory insurance and insurance of bank credits.

7. Part seven of this article specifies which group of creditors may take part in the voting when the question of introducing judicial rehabilitation is considered at the meeting of creditors. According to this provision, the creditors of the first and second groups take part in the voting at the meeting of creditors. That is, when the question of approving the judicial rehabilitation plan and endorsing the debt repayment schedule is considered at the meeting of creditors, the right to vote

belongs to: the first group—creditors under the debtor's obligations secured by pledge, and the second group—creditors under claims against the debtor arising from non-pledge contracts, contracts for the supply of products, the performance of work and the rendering of services as well as contracts of compulsory insurance and insurance of bank credits. The creditors of the third, fourth and fifth groups do not take part in the voting. The third group—creditors on taxes and duties. The fourth group—creditors under claims: for the payment of labor and the payment of compensation under labor contracts; under enforcement documents providing for the transfer or issuance of funds from an account to satisfy claims for the recovery of alimony; for the payment of remuneration under authors' contracts; for payments and claims ensuring the equal performance of the debtor's obligations arising from labor and equivalent legal relations; as well as citizens under claims for compensation for harm caused to their property as a result of a criminal or administrative offense. The fifth group—holders of the debtor's shares for accrued dividends.

8. Part eight of this article establishes the procedure for the meeting of creditors to adopt a decision to approve the judicial rehabilitation plan. A decision to approve the judicial rehabilitation plan is adopted if the majority of the creditors of each of the first and second groups have voted in favor of its approval. In addition, this part provides guarantees for a creditor who has the right to vote and has voted against the approval of the judicial rehabilitation plan as well as for creditors who do not have the right to vote on the approval of this plan. Such creditors have the right to receive compensation at least equal to the guaranteed payment that they could have received in the event that the debtor is subsequently declared bankrupt and liquidation proceedings are introduced with respect to it.

9. If a decision to approve the judicial rehabilitation plan is not adopted at the meeting of creditors in the manner provided for by part eight of this article, the debtor shall be declared bankrupt. If a decision to approve the judicial rehabilitation plan is not adopted by the creditors of each of the first and second groups, and also if the necessary number of votes of the creditors is not obtained in one of the groups during the voting, a decision shall be adopted to apply to the court with a petition to declare the debtor bankrupt and to institute liquidation proceedings.

10. Part ten of this article specifies that the judicial rehabilitation plan may provide for such measures to restore the debtor's solvency as the reduction of the charter fund (charter capital) of the debtor, the issuance and placement of additional issue shares of the debtor in accordance with Article 130 of this Law, the contribution of additional contributions to the charter fund (charter capital) as well as the exchange of the creditors' claims for shares.

11. The judicial rehabilitation plan may also provide for the sale of the enterprise (business) of the debtor or part of the debtor's property. The procedure for implementing these measures is established by Articles 126 and 127 of this Law. For example, according to Article 126 of the Law, in order to satisfy the creditors' claims, the external management plan may provide for the sale of the enterprise (business)

of the debtor as a property complex. Upon the sale of the enterprise (business) as a property complex, all types of the debtor's property intended for carrying out entrepreneurial activity pass to other persons, including land plots, buildings, structures, equipment, inventory, raw materials, products, claims as well as the debtor's means of individualization (trade name, trademarks, service marks), its goods, work and services, other exclusive rights belonging to the debtor, with the exception of the rights and obligations that may not be transferred to other persons.

12. Creditors who have voted against the approval of the judicial rehabilitation plan (as well as creditors who do not have the right to vote on the approval of this plan) may engage experts. With the help of experts such creditors verify the existence of their right to receive compensation at least equal to the guaranteed payment that they could have received in the event of the subsequent declaration of the debtor as bankrupt and the introduction of the liquidation proceedings procedure, the possibility of the successful implementation of the judicial rehabilitation plan as well as the existence of a preferential right of creditors, secured by the debtor's property, over other creditors.

13. The meeting of creditors may adopt a decision to cancel the judicial rehabilitation plan and to terminate the judicial rehabilitation procedure early as well as to file with the court a petition to introduce the external management procedure or to declare the debtor bankrupt and to institute liquidation proceedings, if the debtor has provided, for the judicial rehabilitation plan, false or misleading information on its property or has concealed information relating to its activity and (or) case.

14. If, as a result of the debtor providing false or misleading information on its property for the judicial rehabilitation plan, or concealing information relating to its activity and (or) case, judicial rehabilitation has been introduced and the meeting of creditors has confirmed this fact, the court, on the basis of the decision of the meeting of creditors, issues a ruling on the introduction of external management or adopts a decision to declare the debtor bankrupt and to institute liquidation proceedings.

15. According to part fifteen of this article, responsibility for the implementation of the judicial rehabilitation plan is imposed on two principal subjects: the management bodies of the debtor and the rehabilitation manager. They assume the duty to ensure the implementation of the plan. Thus, both the management bodies of the debtor and the rehabilitation manager must guarantee the effectiveness of the implementation of the plan through the joint performance of their functions. This ensures the creation of an effective system of control and implementation.

16. Control over the implementation of the judicial rehabilitation plan is imposed on the meeting of creditors or the committee of creditors. The purpose of this provision consists in ensuring the direct participation of the creditors in the process of realizing their rights and satisfying their claims. This is because the satisfaction of their claims depends directly on the implementation of the judicial rehabilitation plan.

17. In order to protect their interests, the creditors have the right to request from the rehabilitation manager any information connected with the implementation of the judicial rehabilitation plan. According to part three of Article 23 of the Law, a judicial manager shall be obliged, upon the demand of a creditor, to provide information on the financial condition of the debtor and (or) on his activity within a ten-day period.

18. This provision means that within the framework of the judicial rehabilitation plan there is a possibility of easing the debt burden of the debtor, that is, the plan may provide for the full release of the debtor from certain debts or the forgiveness of part of them. At the same time, a modification of the terms of the debt is possible—for example, the extension of the payment term, the reduction of the interest rate or the modification of the debt repayment procedure. These measures are aimed at stabilizing the financial condition of the debtor and preserving its solvency.

19. According to this provision, the full or partial release of the debtor from debt or the modification of the terms of the debt may not be carried out unilaterally. This requires the clear and voluntary consent of all creditors. In doing so, each creditor has the right to adopt a decision on its own claim, and without its consent neither the forgiveness of debt nor the modification of the terms of the debt is possible. This provision is aimed at protecting the rights and interests of the creditors. It also ensures a fair approach to the debtor and requires the achievement of agreement among all parties. As a result, a decision is adopted only on the basis of the common consent of all participants.

20. This provision means that if an individual creditor does not consent to the release of the debtor from debt or to the modification of the terms of the debt, a special mechanism is applied in order to prevent the halting of this process. In such a case, the other creditors who agree with the changes may offer to buy out the claim of the creditor that has raised an objection. Such a buy-out is carried out on the basis of the amount and conditions specified in the register of creditors' claims. As a result, instead of the dissenting creditor, its claim is acquired by another creditor, and the dissenting creditor itself exits the process. Thus, the achievement of agreement among the remaining creditors is simplified, and the obstacle to the implementation of the rehabilitation plan is removed. This rule has been introduced so that the objection of one creditor cannot disrupt the entire process.

21. A creditor who opposes the release of the debtor from debt or the modification of the terms of the debt shall be obliged to accept the conditions offered by the other creditors. This provision establishes a mechanism for resolving a dispute: if one creditor opposes the common agreement, its interests are compensated with funds, and it is obliged to accept the agreed conditions.

22. The debt repayment schedule, as a general rule, must cover the debt to all creditors. This ensures compliance with the principle of equality among the creditors. At the same time, the debt repayment schedule must be approved by the court, which determines its legal force and ensures control over its implementation.

23. In the course of judicial rehabilitation, new (current) payments may also arise for the debtor. The creditors' claims under such payments are satisfied in the special manner established by Articles 149, 150 and 185 of the Law. According to part one of Article 150 of the Law, claims for judicial expenses, expenses connected with the payment of remuneration to judicial managers, current communal and operational payments, expenses for the insurance of the debtor's property as well as claims under current payment obligations arising after the institution of the insolvency case and claims of citizens to whom the debtor bears liability in accordance with the law for harm caused to life or health are satisfied out of turn.

24. According to this provision, the debtor may perform the obligations provided for by the established debt repayment schedule not only within the specified time periods but also ahead of schedule. In such a case, the debtor has the right to repay the debt earlier than the established time period and to complete the performance of its obligations more quickly. This may occur in cases of an improvement in the debtor's financial capabilities. Early repayment may also be advantageous for the creditors, since they receive the funds more quickly. In doing so, such actions do not contradict the law and do not require additional authorization, unless otherwise restricted by other conditions. As a result, the debtor obtains the opportunity to reduce its debt burden more quickly.

See also: International Commentary, p. 760.

Article 101. Making Changes to the Judicial Rehabilitation Plan and the Debt Repayment Schedule

In the event of the debtor's non-performance of the judicial rehabilitation plan and (or) the debt repayment schedule (non-repayment of the debt within the established time periods and (or) in the established amounts), the debtor shall have the right, within a two-week period from the moment the date of performance of the claims arrives, to apply to the creditors with a petition to endorse changes to the debt repayment schedule. A copy of the petition shall be sent to the rehabilitation manager. On the basis of this petition, the rehabilitation manager shall convene the meeting of creditors no later than two weeks from the moment of receipt of the petition.

If the creditors determine that there is no possibility of fully or partially implementing the judicial rehabilitation plan and the debt repayment schedule or deem that there is a possibility of implementing them only by making changes, the court may make a change to the judicial rehabilitation plan and the debt repayment schedule.

A decision of the meeting of creditors to make changes to the judicial rehabilitation plan and (or) the debt repayment schedule shall be adopted in the manner established by Article 100 of this Law.

If a decision is adopted to make changes to the debt repayment schedule, the meeting of creditors shall adopt a decision to apply to the court with a petition for the approval of the changes to the debt repayment schedule.

The claims of a creditor who was not timely notified of the institution of the insolvency case and who entered the proceedings in the case after the court approved the debt repayment schedule, or under which the time period for the performance of the obligation arrived in the course of the observation procedure, shall be entered in the debt repayment schedule by a ruling of the court.

The court shall have the right to issue a ruling on making changes to the debt repayment schedule only with respect to the claims included in the register of creditors' claims.

The commented article establishes the procedure for making changes to the judicial rehabilitation plan and the debt repayment schedule.

1. Part one of this article provides for the legal consequences and the procedure of actions in cases where the debtor does not perform the judicial rehabilitation plan or the debt repayment schedule within the established time periods or in the provided amounts. If the debtor cannot make the payments on the established date, it shall have the right to apply to the creditors with a petition to make changes to the debt repayment schedule. Such a petition must be filed within two weeks from the moment the time period for the performance of the corresponding obligation arrives. A copy of the debtor's petition shall be sent to the rehabilitation manager. The rehabilitation manager, in turn, shall be obliged, no later than two weeks from the day of receipt of the petition, to convene the meeting of creditors and to ensure the conditions for the consideration of the changes proposed by the debtor at the meeting.

2. Part two of this article provides for the possibility for the creditors to directly influence the judicial rehabilitation plan and the debt repayment schedule. If the creditors establish that the judicial rehabilitation plan or the debt repayment schedule prepared by the debtor in fact cannot be performed in whole or in part, or deem that its implementation is possible only with the making of certain changes, the court shall have the right to take these circumstances into account and adopt a decision to make the corresponding changes.

3. The changes to the judicial rehabilitation plan or the debt repayment schedule shall be carried out on the basis of a decision of the meeting of creditors. Such changes may be adopted not on the initiative of the debtor or the rehabilitation manager but exclusively in the manner established for the adoption of decisions by the meeting of creditors. The decision shall be adopted with regard to the provisions of Article 100 of the Law. This, in turn, ensures the priority of the interests of the creditors, since the making of changes to the debt repayment plan or to the measures to restore solvency is possible only with their consent and after the conduct of a voting procedure in the manner established by law. Thus, the content of this provision strengthens the control and participation of the creditors as well as restricts the possibility of adopting unilateral decisions on questions of the debtor's performance of its obligations.

4. Part four of this article determines the important role of the meeting of creditors in the process of making changes to the debt repayment schedule. If the meeting of creditors comes to the conclusion that it is necessary to make changes to the debt repayment schedule and adopts a corresponding decision, it shall also be obliged to adopt a decision to file a petition with the court for the approval of these changes. Consequently, the meeting of creditors not only endorses the changes but must also ensure that an application is made to the court in order to give them legal force.

5. In the course of considering an insolvency case, the rights of all creditors are subject to equal protection. If a creditor was not timely notified of the institution of the case, and for this reason entered the proceedings only after the court approved the debt repayment schedule, its claims are not left without consideration. In particular, if the time period for the performance of the obligation arrived during the observation procedure, the court issues a special ruling on the inclusion of the claims of such a creditor in the general debt repayment schedule.

6. According to this provision, the court considers the question of making changes to the debt repayment schedule within strictly limited bounds. The court shall have the right to issue a ruling on making changes only with respect to claims that are officially included in the register of creditors' claims. This means that with respect to claims not included in the register or not yet recognized in the established manner, the court does not adopt any decisions. This rule is aimed at ensuring certainty and legal order in the procedure. At the same time, it prevents the making of changes to the schedule on the basis of unsubstantiated or disputed claims. As a result, decisions are adopted exclusively within the bounds of lawful and confirmed claims, which ensures the protection of the interests of all participants in the proceedings.

Article 102. Early Completion of the Judicial Rehabilitation Procedure

In the event of the debtor's repayment of all the creditors' claims provided for by the debt repayment schedule before the expiry of the term of the judicial rehabilitation procedure established by the court, the manager of the debtor shall submit to the court a report on the early completion of the judicial rehabilitation procedure in the manner provided for by Article 104 of this Law. The report of the manager of the debtor on the early completion of the judicial rehabilitation procedure, the conclusion of the rehabilitation manager on the report of the manager of the debtor and the complaints of the creditors shall be considered by the court at a session.

The rehabilitation manager shall be obliged to notify all creditors whose claims have been included in the debt repayment schedule of the date, time and place of the court session for the consideration of the report of the manager of the debtor on the early completion of the judicial rehabilitation procedure.

Following the consideration of the report of the manager of the debtor on the early completion of the judicial rehabilitation procedure as well as the complaints of the creditors, the court shall:

approve the report of the manager of the debtor and terminate the insolvency proceedings if the absence of unrepaid debt has been detected and the complaints of the creditors have been deemed unsubstantiated;

refuse to approve the report of the manager of the debtor if the existence of unrepaid debt has been detected and the complaints of the creditors have been deemed substantiated.

On the approval of the report of the manager of the debtor and the termination of the insolvency proceedings or the refusal to approve the said report, a ruling of the court shall be issued, which may be appealed (protested).

The commented article establishes the procedure for and grounds of the early completion of the judicial rehabilitation procedure.

1. If the debtor, during judicial rehabilitation, fully repays the claims of all creditors in accordance with the debt repayment schedule before the time period established by the court, the manager of the debtor obtains the opportunity to complete the case before the end of the rehabilitation term. To this end, he submits to the court a special report provided for by Article 104 of the Law. According to part one of Article 104 of the Law, no later than fifteen days before the end of the established term of the judicial rehabilitation procedure, the manager of the debtor shall be obliged to submit to the court a report on the results of the conducted judicial rehabilitation procedure. This report must be accompanied by the debtor's balance sheet as of the last date, the debtor's report on financial results, the amount of the satisfied claims and the documents confirming such satisfaction as well as the conclusion of the rehabilitation manager regarding the report of the manager of the debtor, the register of creditors' claims indicating the amount of the satisfied claims as well as the complaints of the creditors whose claims have not been satisfied. When considering this report, the court, in the course of its examination, is not confined only to the information submitted by the manager of the debtor but also considers the conclusion of the rehabilitation manager and the complaints of the creditors.

2. Part two of this article establishes the duty of the rehabilitation manager to notify all creditors whose claims are included in the debt repayment schedule of the date, time and place of the court session at which the report of the manager of the debtor on the early completion of the judicial rehabilitation procedure will be considered. In doing so, particular attention is given to ensuring the participation of the creditors in the consideration of this question.

3. Having considered the report of the manager of the debtor and the complaints of the creditors, the court may adopt one of two decisions:

if the debtor has no unrepaid debt remaining and the complaints of the creditors have been deemed unsubstantiated, the court approves the report and terminates the

proceedings in the case. In this case, judicial rehabilitation is deemed to have been successfully completed;

if, in the course of the examination, the existence of unrepaid debt is established and the complaints of the creditors are deemed substantiated, the court refuses to approve the report. In such a case, judicial rehabilitation is not completed early, and the procedure continues in the established manner.

4. According to this provision, the court considers the report submitted by the manager of the debtor and adopts a decision on its approval or on the refusal to approve it. If the report is recognized as satisfactory, the court approves it and issues a ruling on the termination of the insolvency proceedings. By contrast, if the report is insufficiently substantiated or does not comply with the requirements of legislation, the court refuses to approve it. In such a case, the proceedings in the case continue, or other measures provided for by law may be adopted. In doing so, the ruling issued by the court is not final and unconditional. Interested persons shall have the right to appeal this ruling, and the prosecutor—to bring a protest against it in the manner established by law.

Article 103. Early Termination of the Judicial Rehabilitation Procedure

The grounds for the early termination of the judicial rehabilitation procedure shall be:

the repeated or material (for a period of more than one month) violation by the debtor, in the course of the judicial rehabilitation procedure, of the time periods for the repayment of the creditors' claims established by the debt repayment schedule;

the existence of circumstances indicating that the debtor is not in a position to perform the debt repayment schedule.

The rehabilitation manager, on his own initiative or on the basis of a decision of the committee of creditors, shall be obliged, within two weeks from the moment the grounds specified in part one of this article arise, to convene the meeting of creditors in order to consider the question of applying to the court with a petition for the early termination of the judicial rehabilitation procedure.

The manager of the debtor shall be obliged to submit to the meeting of creditors a report on the results of the performance of the debt repayment schedule and the judicial rehabilitation plan. The report must be accompanied by the debtor's balance sheet as of the last reporting date, the debtor's report on income (profits) and losses, the register of creditors' claims indicating the amount of the repaid claims and the documents confirming the repayment of the creditors' claims. Simultaneously with the report of the manager of the debtor, the rehabilitation manager shall submit to the meeting of creditors his conclusion on the report of the manager of the debtor.

The meeting of creditors, following the consideration of the report of the manager of the debtor as well as the conclusion of the rehabilitation manager on this report, shall have the right to adopt a decision to apply to the court with a petition to introduce the external management procedure or to declare the

debtor bankrupt and to commence liquidation proceedings. The petition of the meeting of creditors shall be accompanied by a copy of the minutes of the meeting of creditors as well as the complaints of the creditors who voted against the decision adopted by the meeting of creditors or who did not take part in the voting on this question.

The court, on the basis of the petition of the meeting of creditors, issues a ruling on the introduction of the external management procedure or adopts a decision to declare the debtor bankrupt and to commence liquidation proceedings.

The commented article establishes the procedure for and grounds of the early termination of the judicial rehabilitation procedure.

1. The commented article specifies the grounds for the early termination of judicial rehabilitation. If the debtor repeatedly violates the requirements provided for by the debt repayment schedule, or commits at least one material violation, namely a delay in the performance of obligations of more than one month, the judicial rehabilitation procedure may be terminated early. In addition, a ground for the early termination of judicial rehabilitation is a financial condition of the debtor that indicates its inability to perform the debt repayment schedule.

2. The question of the early termination of judicial rehabilitation is considered at the meeting of creditors. The rehabilitation manager shall be obliged to convene such a meeting. He organizes its conduct on his own initiative or on the basis of a decision of the committee of creditors. The convening of the meeting of creditors must be carried out within two weeks from the day the circumstances arise that indicate a repeated or one-time material violation by the debtor of the terms of the debt repayment schedule (a delay of more than one month), as well as the inability of the debtor to perform the said schedule.

3. At the meeting of creditors, the manager of the debtor submits a report. It contains information on the performance of the debt repayment schedule and the judicial rehabilitation plan. The report must necessarily be accompanied by the balance sheet, information on income and losses, the register of creditors' claims as well as the documents confirming the satisfaction of these claims. In addition, the rehabilitation manager also submits his conclusion on the report of the manager of the debtor.

4. After considering the report and the conclusions, the meeting of creditors shall have the right to adopt a decision along one of two lines: first, to apply to the court with a petition to introduce the external management procedure; second, to apply to the court with a petition to declare the debtor bankrupt and to commence the liquidation procedure. The petition is sent to the court together with the minutes of the meeting of creditors as well as the complaints of the creditors who voted against the adopted decision or who did not take part in the voting.

5. The court considers the petition of the meeting of creditors and issues a corresponding ruling. The decision of the court may be one of two: on the

introduction of the external management procedure; on the declaration of the debtor as bankrupt and the opening of liquidation proceedings. Thus, the court gives legal force to the decision of the creditors and determines the further stage of the insolvency proceedings.

See also: International Commentary, p. 762.

Article 104. Completion of the Judicial Rehabilitation Procedure

No later than fifteen days before the expiry of the established term of the judicial rehabilitation procedure, the manager of the debtor shall be obliged to submit to the court a report on the results of the conduct of the judicial rehabilitation procedure. This report must be accompanied by the debtor's balance sheet as of the last date, the debtor's report on financial results, the register of creditors' claims indicating the amount of the repaid claims and the documents confirming this repayment, the conclusion of the rehabilitation manager on the report of the manager of the debtor and the complaints of the creditors whose claims have not been repaid. The report of the manager of the debtor on the results of the conduct of the judicial rehabilitation procedure and the complaints of the creditors shall be considered by the court at a session.

The rehabilitation manager shall be obliged to notify all creditors whose claims have been included in the debt repayment schedule of the date, time and place of the court session for the consideration of the report of the manager of the debtor on the results of the conduct of the judicial rehabilitation procedure.

Following the consideration of the report of the manager of the debtor on the results of the conduct of the judicial rehabilitation procedure as well as the complaints of the creditors, the court shall:

approve the report of the manager of the debtor and issue a ruling on the termination of the insolvency proceedings if the absence of unrepaid debt has been detected and the complaints of the creditors have been deemed unsubstantiated;

refuse to approve the report of the manager of the debtor if the existence of unrepaid debt has been detected and the complaints of the creditors have been deemed substantiated.

In the event of refusal to approve the report of the manager of the debtor, the court shall issue a ruling on the introduction of the external management procedure or adopt a decision to declare the debtor bankrupt and to commence liquidation proceedings.

The commented article establishes the procedure and grounds for the completion of the judicial rehabilitation procedure.

1. This article provides for the duty of the manager of the debtor to submit a report at the concluding stage of the judicial rehabilitation procedure. Thus, no later than fifteen days before the expiry of the term established for the conduct of judicial rehabilitation, the manager of the debtor shall be obliged to submit a report to the court. The report must comprehensively reflect the financial condition of the debtor.

The report shall be accompanied by: the balance sheet; the report on financial results (the profit and loss report); information on the amount of the satisfied claims of the creditors; documents confirming their satisfaction. In addition, the report must be accompanied by: the conclusion of the rehabilitation manager; the register of creditors' claims; information on the volume of the satisfied claims of the creditors. If there are creditors whose claims have not been satisfied, their complaints must also be attached to the report. The court considers the report of the manager of the debtor and the complaints of the creditors in an open court session.

2. Part two of this article enshrines an important procedural duty of the rehabilitation manager. He shall be obliged to timely notify all creditors whose claims are included in the debt repayment schedule of the court session at which the report of the manager of the debtor on the results of the judicial rehabilitation procedure will be considered. The main purpose of this provision consists in ensuring equal opportunities for all creditors, affording them the right to participate in the discussion of the report and to protect their interests. If the rehabilitation manager does not timely notify the creditors, this may restrict their right to participate in the court session and violate their right to appeal.

3. Part three of the commented article determines the stage of the court's adoption of the final decision on the completion of the judicial rehabilitation procedure. Having considered the report of the manager of the debtor on the results of the conduct of judicial rehabilitation as well as the complaints of the creditors, the court may issue one of two rulings. If all the debts of the debtor are fully repaid and the complaints of the creditors are deemed unsubstantiated, the court approves the report and terminates the insolvency proceedings. In this case, judicial rehabilitation is deemed to have been completed successfully. However, if, in the course of the examination, the existence of unrepaid debt of the debtor is established and the complaints of the creditors are deemed substantiated, the court refuses to approve the report.

4. Part four of this article determines the subsequent measures applied by the court in the event that the report of the manager of the debtor is not approved. If the information contained in the report is deemed unreliable or insufficient, if it is established that the debtor was unable to perform its obligations or that its financial position has not been restored, the court chooses one of two actions: it may attempt to restore the solvency of the debtor by introducing the external management procedure (by means of issuing a corresponding ruling); if it is established that the financial condition of the debtor cannot, in principle, be stabilized, the court adopts a decision to declare the debtor bankrupt and to open liquidation proceedings.

See also: International Commentary, p. 762.

Article 105. Performance of Obligations by the Persons Who Have Provided Security

The right of the creditors to demand the performance of obligations from the persons who have provided security shall arise from the moment the court issues a ruling on the termination or completion of the judicial rehabilitation procedure. Claims against the persons who have provided security for the performance of obligations shall be made by the representative of the meeting of creditors (the committee of creditors) or the rehabilitation manager.

Funds received as a result of performance by the persons who have provided security for the performance of obligations shall be transferred to the debtor's account for settlements with the creditors. Settlements with the creditors shall be carried out by the debtor.

From the moment evidence of the repayment of the creditors' claims is submitted, the rehabilitation manager shall make a corresponding entry in the register of creditors' claims.

The commented article establishes the procedure for the performance of the debtor's obligations by the persons who have provided security, the procedure for transferring the funds received as a result of the performance of obligations to the debtor's account for settlements with the creditors as well as the procedure for satisfying the creditors' claims.

1. Part one of this article determines the moment of arising and the procedure of realization of the right of the creditors to make claims against the persons who have provided security for the performance of obligations. If the judicial rehabilitation procedure is terminated or completed, from this moment the creditors shall have the right to make their claims not against the debtor itself but against the persons who have provided security for the performance of its obligations. Such securing persons may be sureties, pledgors or other persons who have provided security. Claims against them are made not by an individual creditor but by a representative specially appointed by the meeting of creditors or the committee of creditors, or by the rehabilitation manager.

2. Part two of this article establishes the procedure for the satisfaction of the creditors' claims by the persons who have provided security for the performance of obligations (for example, a surety or a pledgor). The person who has provided security transfers the funds for the performance of the debtor's obligations to the debtor's account. If a pledge has been provided as security for the performance of obligations, the subject of the pledge is sold (converted into monetary form) in accordance with the requirements of legislation, and the funds received are transferred to the debtor's account. Thereby, the carrying out of settlements in a single manner and in accordance with the law is ensured. Settlements with the creditors are carried out by the debtor itself.

3. This provision determines an important duty of the rehabilitation manager with respect to keeping a record of the creditors' claims. If evidence is submitted that the creditor's claim against the debtor has been satisfied, the rehabilitation manager shall be obliged officially to confirm this fact and to make a corresponding entry in the register of creditors' claims.

Article 106. Report on the Results of the Performance of the Obligations Arising from the Security

Upon the completion of the settlements with the creditors or upon the expiry of the time period established by the court for the repayment of the creditors' claims, the rehabilitation manager shall be obliged to submit to the court a report on the results of the performance of the debtor's obligations by the persons who have provided security. The report of the rehabilitation manager and the complaints of the creditors shall be considered by the court at a session. The requirements for the report as well as the procedure for its submission and consideration shall be established by Articles 132 and 133 of this Law.

Following the consideration of the report of the rehabilitation manager and the complaints of the creditors, the court shall:

approve the report of the rehabilitation manager and issue a ruling on the termination of the insolvency proceedings if the absence of unrepaid debt has been detected and the complaints of the creditors have been deemed unsubstantiated;

refuse to approve the report of the rehabilitation manager if the existence of unrepaid debt has been detected and the complaints of the creditors have been deemed substantiated, and issue a ruling on the introduction of the external management procedure or adopt a decision to declare the debtor bankrupt and to commence liquidation proceedings.

The commented article establishes the procedure for submitting the report on the results of the performance of the obligations arising from the security as well as the actions of the court following the consideration of such a report.

1. Part one of this article enshrines the duty of the rehabilitation manager to submit a report and the procedure for its submission. After the full completion of the settlements with the creditors or upon the expiry of the time period established by the court, the rehabilitation manager shall be obliged to submit to the court a report on the results of the performance of the debtor's obligations by the persons who have provided security. The court considers this report at a court session together with any complaints of the creditors. Such a procedure ensures the reliability and lawfulness of the report and also serves to protect the interests of the creditors. The requirements for the content of the report as well as the procedure for its submission and consideration are determined in detail in Articles 132 and 133 of the Law. The said provisions are aimed at ensuring the transparency and lawfulness of the judicial rehabilitation procedure.

2. Part two of this article determines the procedure for the court's assessment of the report of the rehabilitation manager and the complaints of the creditors and also establishes what decision is to be adopted following such a consideration. If the debtor's debt has been fully repaid and the complaints of the creditors have been deemed unsubstantiated, the court approves the report of the rehabilitation manager and issues a ruling on the termination of the insolvency proceedings. However, if it is established that the debtor's obligations have not been performed in full and the complaints of the creditors are deemed substantiated, the court does not approve the report. In such a case, the court may issue a ruling on the introduction of the external management procedure or adopt a decision to declare the debtor bankrupt and to commence liquidation proceedings.

See also: International Commentary, p.720.

Article 107. Consequences of the Non-performance of Obligations by the Persons who have Provided Security for the Performance of Obligations

In the event of the non-performance of obligations arising from the security provided by the persons who have provided security for the performance of obligations, within the time period established by the court for the satisfaction of the creditors' claims, and the absence of grounds for the introduction of the external management procedure, the court shall adopt a decision to declare the debtor bankrupt and to commence liquidation proceedings.

The non-performance of obligations arising from the security provided by the persons who have provided security for the performance of obligations, within the time period established in part one of this article for the satisfaction of the creditors' claims, shall entail the joint or subsidiary liability of the said persons under the debtor's obligations to the creditors in accordance with legislation.

In this case, in the course of the next insolvency procedure, the judicial manager shall have the right to apply to the court with a claim against the persons who have provided security.

The commented article sets out the consequences of the non-performance of obligations by the persons who have provided security.

1. Part one of this article is applied in cases of non-performance of the duties imposed on the persons who have provided security for the performance of obligations. If they, within the time period established by the court, have not ensured the performance of the debtor's obligations to the creditors and, in doing so, the necessary grounds for the introduction of the external management procedure are absent, the court declares the debtor bankrupt. In such a case, the debtor's bankruptcy is officially recognized, and the liquidation proceeding is introduced with respect to it. Thus, this provision is aimed at protecting the interests of the creditors, ensuring recourse against the persons who have provided security, as well as maintaining economic order by the timely declaration of an insolvent debtor as bankrupt.

2. According to part two of this article, if the persons who have provided security for the performance of obligations do not perform the duties imposed on them within the established time period, their legal liability arises. In accordance with legislation, they bear, before the creditors, joint or subsidiary liability alongside the debtor. Under joint liability, the creditor has the right to demand the full amount of the debt both from the debtor and from the person who has provided security. Under subsidiary liability, the creditor first applies to the debtor, and if its obligations are not performed, may then make a claim against the person who has provided security. This rule induces the persons who have provided security to perform the obligations they have assumed timely and in full and strengthens the protection of the interests of the creditors.

3. In the event of the non-performance by the persons who have provided security for the performance of obligations of the duties imposed on them within the established time period, in the course of subsequent insolvency procedures the judicial manager obtains the opportunity to adopt legal measures with respect to them. In particular, the judicial manager shall have the right to apply to the court and make a claim against the persons who have provided security.

See also: International Commentary, p. 762.

CHAPTER 10. EXTERNAL MANAGEMENT PROCEDURE

Article 108. Procedure for Introducing External Management

The external management procedure is introduced by the court on the basis of a petition of the meeting of creditors or an application of the authorized state body with respect to a debtor in whose charter fund (charter capital) the state holds a share, where a real possibility of restoring the debtor's solvency has been established.

The court ruling on the introduction of the external management procedure is subject to immediate execution and may be appealed (protested) within the time limit established by legislation.

The external management procedure is introduced for a term of twelve to twenty-four months unless otherwise provided by this Law.

Upon a petition of the meeting of creditors, a decision of the authorized state body or an application of the external manager, the established term of the external management procedure may be shortened or extended by the court within the time limits established by part three of this article.

The aggregate term of the judicial rehabilitation and external management procedures may not exceed thirty months.

Where more than eighteen months have elapsed from the date of introduction of the judicial rehabilitation procedure to the date on which the court considers the question of introducing the external management procedure, the court issues a decision declaring the debtor bankrupt and commencing liquidation proceedings.

The article being commented on establishes the grounds for introducing external management, the term of its introduction as well as the rules concerning the shortening and extension of the term of external management.

1. Part one of this article sets out the procedure and grounds for introducing the external management procedure, under which, where a real possibility of restoring the debtor's solvency is identified, the meeting of creditors may apply to the court with a petition for the application of the external management procedure and, with respect to a debtor in whose charter fund (charter capital) there is a state share, the authorized state body by filing an application. One of the principal conditions for introducing external management is the existence of a real possibility of restoring the debtor's solvency, that is, the existence of appropriate conditions for the debtor to carry out profitable economic activity, favorable market conditions, personnel capacity and so forth. Such possibilities must be indicated in the petition (application) submitted to the court by the meeting of creditors or the authorized state body. The court, having considered such petition or application, may introduce the external management procedure. Under part five of Article 12 of the Law, the exclusive competence of the meeting of creditors includes adopting a decision to apply to the court with a petition for the introduction of the judicial rehabilitation or external

management procedure as well as for the extension of the term or the early termination of these procedures.

Under part three of Article 13 of the Law, when the meeting of creditors considers questions of introducing the judicial rehabilitation or external management procedure as well as the extension of their term or their early termination, creditors of the first and second groups have the right to vote. The first group consists of creditors in respect of the debtor's obligations secured by pledge; the second group consists of creditors in respect of claims against the debtor arising from contracts not secured by pledge, contracts for the supply of products, the performance of works and the rendering of services as well as from contracts of compulsory insurance and insurance of bank loans.

Under part one of Article 173 of the Law, external management of a town-forming enterprise or an enterprise equated thereto may be introduced by the court on the basis of a decision of the meeting of creditors and, in the absence of such a decision–also at the request of a local state authority or a ministry, department or economic management body, provided they have supplied security for the debtor's obligations. —

The meeting of creditors may adopt a decision to apply to the court with a petition for the introduction of the external management procedure during observation, judicial rehabilitation or liquidation proceedings. Under Article 89 of the Law, the first meeting of creditors (during the observation procedure) may adopt a decision to apply to the court with a petition for the introduction of the external management procedure. Part four of Article 103 of the Law provides that the meeting of creditors, following its consideration of the report of the debtor's manager as well as the conclusion of the rehabilitation manager on that report, has the right to adopt a decision to apply to the court with a petition for the introduction of the external management procedure. Likewise, under part one of Article 157 of the Law, where the judicial rehabilitation and (or) external management procedures have not been introduced with respect to the debtor and, in the course of liquidation proceedings, grounds arise to believe that the debtor's solvency may be restored, including grounds confirmed by financial analysis data, the liquidation manager is obliged, within one month from the day such circumstances are identified, to convene a meeting of the debtor's creditors to consider the question of applying to the court with a petition for the termination of the liquidation proceedings and transition to the external management procedure.

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38. In accordance with part one of Article 108 of the Law, external management is introduced by the court on the basis of a petition of the meeting of creditors or an application of the authorized state body with respect to enterprises in whose charter fund the state holds a share, where a real possibility of restoring the debtor's solvency has been established.

External management may be introduced for a term of twelve (at the minimum) to twenty-four months. The aggregate term of judicial rehabilitation and external management may not exceed thirty months. Where judicial rehabilitation was not introduced with respect to the debtor, the overall term of external management must not exceed twenty-four months (with town-forming enterprises and enterprises equated thereto constituting an exception).

Shortening or extension of the term established for external management is permitted within the time limits provided by part four of Article 108 of the Law, upon a petition of the meeting of creditors, a decision of the authorized state body or an application of the external manager. The question of shortening or extending the term of external management is considered by the court with notice to the persons participating in the case of the time and place of the court hearing.

2. Part two of this article establishes that the court ruling on the introduction of external management is subject to immediate execution and may be appealed within the time limit established by the relevant legislative acts. Part three of Article 27 of the Law of the Republic of Uzbekistan "On the Execution of Judicial Acts and Acts of Other Bodies" provides that, in cases where a judicial act is subject to immediate execution, execution is carried out starting from the day following the day on which that act is issued. Under part three of Article 199 of the EPC, unless a different time limit is established by the EPC, a complaint (protest) against a ruling may be filed within a period not exceeding one month from the day on which the ruling is issued.

3. The external management procedure is introduced for a term of twelve to twenty-four months. A minimum term of twelve months (one year) is established for the external management procedure, whereas no such minimum term is provided for the judicial rehabilitation procedure. In accordance with Article 174 of the Law, external management of a town-forming enterprise or an enterprise equated thereto may be extended by the court for a term of no more than one year where there is a petition of a local state authority (on the basis of a financial recovery plan for the enterprise by means of investing in the enterprise's activity, employing workers, creating new jobs as well as applying other means of restoring the debtor's solvency). Accordingly, upon a petition of a local state authority, a ministry, department or economic management body, the term of the external management procedure of a

town-forming enterprise or an enterprise equated thereto may be extended up to five years on condition that a surety is provided for the debtor's monetary obligations and (or) its taxes and duties.

The six-month term established for settlements with the creditors specified in part two of Article 135 of the Law is not included in the overall term of external management.

4. Upon a petition of the meeting of creditors, the external manager or the authorized state body, the court may shorten the term of external management in connection with the restoration of the debtor's solvency or with the establishment of the fact that there is no possibility of restoring the debtor's solvency. Where necessary, upon a petition of the meeting of creditors, the external manager or the authorized state body, the court may extend the term of external management within the term established by part three of this article, from one to two years (for a town-forming enterprise and an enterprise equated thereto) or from one to three years or up to five years where there is a surety), without exceeding the said time limits. Under part three of Article 13 of the Law, when the meeting of creditors considers questions of introducing the judicial rehabilitation or external management procedure as well as the extension of their term or their early termination, creditors of the first and second groups have the right to vote.

5. Under this provision, the judicial rehabilitation and external management procedures must operate together for a limited period of time, that is, the overall duration of these two procedures may not exceed thirty months. This limitation prevents the artificial protraction of the procedures. At the same time, it is ensured that the fate of the debtor does not remain in an uncertain state for a long period of time. If the debtor's solvency is not restored within the established term, the question of transition to the next stage is considered—for example, to the procedure for the liquidation proceedings. As a result, this rule is aimed at accelerating the procedures and ensuring a balance of the interests of all participants.

6. The circumstance that more than eighteen months have elapsed from the day of introduction of the judicial rehabilitation procedure to the day on which the court considers the question of introducing the external management procedure is of significant importance in introducing subsequent procedures. In accordance with part three of Article 106 of the Law, following its consideration of the report of the rehabilitation manager and the complaints of creditors, the court, if it establishes the existence of unpaid debt and finds the creditors' complaints justified, has the right to refuse to approve the report of the rehabilitation manager and to issue a ruling on the introduction of the external management procedure. Part six of this article establishes a special rule under which, for the transition from the judicial rehabilitation procedure to external management, no more than eighteen months must have elapsed from the moment

of introduction of the judicial rehabilitation procedure. If the said time limit is missed, the court issues a decision declaring the debtor bankrupt and commencing liquidation proceedings.

See also: International Commentary, p. 764.

Article 109. Consequences of Introducing the External Management Procedure

From the moment of introduction of the external management procedure:

the debtor's manager is removed from the performance of his duties and the management of the debtor's affairs is entrusted to the external manager. The external manager is obliged to issue an order terminating the employment contract with the debtor's manager or transferring him to other work;

the powers of the debtor's management bodies cease. The powers of the debtor's manager and other management bodies of the debtor pass to the external manager, with the exception of powers that pass to other persons (bodies) in accordance with this Law. Within three working days from the moment of appointment of the external manager, the debtor's management bodies are obliged to ensure the transfer to the external manager of the accounting documentation and other documentation of the debtor, seals and stamps (where seals and stamps exist), material and other valuables;

previously adopted measures to secure creditors' claims are canceled;

the attachment of the debtor's property and other restrictions on the debtor's powers to dispose of property belonging to it may be imposed exclusively within the framework of insolvency procedures;

the payment of all current tax payments (with the exception of taxes on wages and payments equated thereto) incurred in the course of the insolvency proceedings is suspended and is made after the expiry of the term of the external management procedure. In this case, these tax debts must be paid in equal installments within six months from the date on which the court approves the report of the external manager and the ruling terminating the insolvency proceedings with respect to the debtor;

a moratorium is introduced on the satisfaction of creditors' claims in respect of the debtor's monetary obligations and (or) taxes and duties, with the exception of the cases provided by Article 110 of this Law.

The creditor's right as security for the satisfaction of its claims does not extend to the fruits, products and income from the use of the debtor's property furnished as security for the performance of obligations before the introduction of the external management procedure, received after the introduction of this procedure.

Upon the completion of external management, the penalty (fine, late-payment interest) as well as the amounts of damages caused that the debtor is obliged to pay to creditors in respect of monetary obligations and (or) taxes and duties may be presented for payment in the amounts existing at the moment of introduction of external management.

The article being commented on establishes that, from the moment of introduction of the external management procedure, the powers of the debtor's manager and management bodies pass to the external manager, a moratorium on creditors' claims is introduced, the deferral of certain tax payments is permitted as well as that the management of the debtor's property and obligations is carried out in accordance with a special procedure.

1. Part one of this article provides for a number of consequences arising in connection with the introduction of external management.

1.1. As a result of the introduction of external management, such restrictions and prohibitions arise as: the removal of the debtor's manager from the performance of his duties, the cessation of the powers of the debtor's management bodies, the cancellation of previously adopted measures to secure creditors' claims, the application of the attachment of the debtor's property and other restrictions on the debtor's powers to dispose of property belonging to it only within the framework of insolvency procedures, the suspension of payment of all types of current tax payments arising in the course of the insolvency proceedings as well as the introduction of a moratorium on the satisfaction of creditors' claims in respect of the debtor's monetary obligations and (or) taxes and duties.

1.2. From the moment of introduction of the external management procedure, the debtor's manager is removed from the performance of his duties and the management of the debtor's affairs is entrusted to the external manager. One of the duties imposed on the external manager by this Law is the issuance of an order terminating the employment contract concluded with the debtor's manager or transferring him to other work.

In accordance with part two of Article 31 of the Law of the Republic of Uzbekistan "On Limited Liability Companies," the formation of the executive bodies of a company and the early termination of their powers fall within the exclusive competence of the general meeting of the company's participants. Under part two of Article 40 of the said Law, the company's charter may provide that the formation of the executive bodies of the company and the early termination of their powers fall within the competence of the company's supervisory board.

In accordance with part one of Article 59 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of Shareholders' Rights," the approval of the company's organizational structure, the formation of the executive body, the election (appointment) of its manager and the early termination of the manager's powers fall within the competence of the general meeting of shareholders. The resolution of questions concerning the creation of the company's executive body, the election (appointment) of its manager as well as the early termination of the manager's powers may be delegated to the company's supervisory board.

In connection with the cessation of the powers of the debtor's management bodies and the transfer of management of the debtor to the external manager, the

contract concluded with the manager (executive body) may be terminated, or he may be transferred to other work.

1.3. From the moment of introduction of the external management procedure, the powers of the debtor's management bodies cease, and the powers of the debtor's manager and other management bodies of the debtor pass to the external manager. The debtor's management bodies (for example, in a joint-stock company, the general meeting of shareholders, the supervisory board and the executive body, that is, the director or the chairman of the management board, which are the management bodies of the company; in limited liability companies, the general meeting of participants, the supervisory board and the executive body) do not carry out their activity after the introduction of the external management procedure.

Where, in accordance with part seven of Article 134 of the Law, there is a petition of the meeting of creditors for declaring the debtor bankrupt and commencing liquidation proceedings as well as where the court has refused to approve the report of the external manager, or the report of the external manager has not been submitted within the one-month period from the day of expiry of the established term of the external management procedure, or none of the decisions provided by paragraphs two, three and four of part four of Article 133 of this Law has been adopted, the court issues a decision declaring the debtor bankrupt and commencing liquidation proceedings. Thus, where the liquidation proceeding is applied after external management, the debtor's management bodies cannot restore their activity. However, under Article 139 of the Law, if the external management procedure is concluded by the conclusion of a settlement agreement or by the satisfaction of creditors' claims, the external manager continues to perform the duties of the debtor's manager until a new manager is elected (appointed) and the powers of the debtor's management bodies are restored.

Paragraph three of part one of this article provides that, in the external management procedure, the powers of the debtor's management bodies may pass not to the external manager but to other persons (bodies). Other persons (bodies) are understood to mean the meeting of creditors and the committee of creditors.

In addition, the debtor's management bodies and (or) the judicial manager appointed in the previous insolvency procedure have the following obligation: from the moment of appointment of the external manager, within three working days, they must transfer to the external manager the accounting documents and other documents of the debtor, seals and stamps (where seals and stamps exist), material and other valuables. This time limit is strictly established and its violation is regarded as the artificial protraction of the external management procedure. In such a case, the court, upon a petition of the external manager, may adopt a decision on the compulsory recovery of the documents or on holding the guilty person liable. The Law provides measures of liability in accordance with legislation for the non-performance (improper performance) of this obligation.

1.4. After the introduction of the external management procedure, previously adopted measures to secure creditors' claims are canceled. In accordance with Article 47 of the Law, the court, in an insolvency case, on the basis of an application of a person participating in the case, has the right to adopt measures to secure creditors' claims in accordance with the EPC. In addition to the measures provided by the EPC, the court has the right to prohibit the conclusion of transactions without the consent of the judicial manager, to impose on the debtor the obligation to transfer securities, currency valuables and other property to third persons for safekeeping as well as to adopt other measures aimed at ensuring the preservation of the debtor's property. Under Article 94 of the EPC, measures to secure a claim may be: 1) the attachment of property or monetary funds belonging to the defendant; 2) the prohibition of the defendant from performing certain actions; 3) the prohibition of other persons from performing certain actions relating to the subject matter of the dispute; 4) the suspension of recovery under an enforcement document or other document under which recovery is carried out in an indisputable (non-acceptance) manner, where the claimant disputes such document; 5) the suspension of the sale of property where an application for the release of property from attachment is being considered; 6) the imposition on the defendant of the obligation to perform certain actions in order to prevent damage to the disputed property or the deterioration of its condition; 7) the transfer of the disputed property to a third person (custodian). The cancellation of the said interim measures creates for the debtor the possibility of restoring its financial condition.

1.5. After the introduction of the external management procedure, the attachment of the debtor's property and other restrictions on the debtor's powers to dispose of property belonging to it are applied only within the framework of insolvency procedures.

In accordance with Article 118 of the Law, unless otherwise provided by this Law or by the external management plan, major transactions and interested-party transactions are concluded by the external manager only with the consent of the meeting of creditors or the committee of creditors. Major transactions include transactions that entail the disposal of the debtor's immovable property or other property the book value of which constitutes more than ten percent of the book value of the debtor's assets at the moment of conclusion of the transaction. Where one of the parties concluding the transaction is an interested party with respect to the external manager or a creditor, such transaction is recognized as an interested-party transaction.

Thus, the restrictions on the attachment and disposal of the debtor's property are directly established by the Law itself, and the establishment of other prohibitions is not permitted.

1.6. After the application of the external management procedure, the payment of all types of current tax payments arising in the course of the insolvency proceedings (with the exception of taxes on wages and payments equated thereto) is suspended

and is made after the completion of the term of the external management procedure. This is necessary in order to reduce the financial burden on the debtor. After the completion of external management, the report of the external manager on the restoration of the debtor's solvency is approved, and the court issues a ruling terminating the proceedings in the case. From this date, taxes not paid during the period of external management are paid in equal installments within six months.

1.7. After the application of the external management procedure, a moratorium is introduced on the satisfaction of creditors' claims in respect of the debtor's monetary obligations and (or) its taxes and duties. A moratorium is the suspension of the performance by the debtor, a legal person, of obligations in respect of monetary obligations and (or) taxes and duties. However, in accordance with Article 110 of the Law, the moratorium does not apply to the following claims:

monetary obligations that arose after the introduction with respect to the debtor of the observation procedure and (or) the judicial rehabilitation procedure;

monetary obligations and (or) taxes and duties the time for performance of which fell due after the introduction of the external management procedure;

claims of citizens arising from labor legal relations, claims for the recovery of alimony, claims for the payment of remuneration under copyright contracts as well as claims of a citizen to whom the debtor is liable in accordance with law for harm caused to his life or health.

2. Under Article 92 of the CC, the fruits, products and income received from property, unless otherwise provided by law or contract, belong to the owner of the property. Part two of this article of the Law establishes a special rule under which the creditor's right as security for the satisfaction of its claims does not extend to the fruits, products and income received after the introduction of the external management procedure from property furnished as security for the performance of the debtor's obligations before the introduction of the external management procedure. Thus, if, during the period of external management, fruits are created, products are produced, or income is received from security furnished before the introduction of the external management procedure, they are not regarded as security for the satisfaction of creditors' claims.

3. Under part two of Article 110 of the Law, during the period in which the moratorium is in effect, penalties (fines, late-payment interest) and other economic (financial) sanctions for the non-performance or improper performance of monetary obligations and (or) obligations in respect of taxes and duties are not accrued, with the exception of monetary obligations that arose after the introduction with respect to the debtor of the observation procedure and (or) the judicial rehabilitation procedure as well as interest payable.

However, a demand for payment of the said penalty (fine, late-payment interest) and other economic (financial) sanctions as well as of amounts of harm caused may be presented after the completion of the external management procedure in the amounts existing at the moment of introduction of external management.

See also: International Commentary, p. 765.

Article 110. Moratorium on the Satisfaction of Creditors' Claims

The moratorium on the satisfaction of creditors' claims extends to monetary obligations and (or) taxes and duties the time for performance of which fell due before the introduction of the external management procedure, with the exception of monetary obligations and (or) taxes and duties that arose after the introduction with respect to the debtor of the observation procedure and (or) the judicial rehabilitation procedure.

During the term in which the moratorium is in effect, with respect to the monetary obligations and (or) taxes and duties provided by part one of this article:

recovery under enforcement and other documents, recovery under which is carried out in an indisputable (non-acceptance) manner, is not permitted;

penalties (fines, late-payment interest) and other economic (financial) sanctions for the non-performance or improper performance of monetary obligations and (or) the obligation in respect of taxes and duties are not accrued, with the exception of monetary obligations that arose after the introduction with respect to the debtor of the observation procedure and (or) the judicial rehabilitation procedure as well as interest payable.

Interest is accrued on the amount of the creditor's claims in respect of monetary obligations and (or) taxes and duties as at the moment of introduction of external management, in the manner and amount provided by Article 327 of the Civil Code of the Republic of Uzbekistan. This interest is accrued on claims of one priority from the date of introduction with respect to the debtor of external management and until the date on which the court issues the ruling commencing settlements with creditors in respect of claims of that priority or until the moment of adoption of the decision declaring the debtor bankrupt and commencing liquidation proceedings. The amount of accrued interest is payable to the creditor simultaneously with the payment of the principal debt amount.

The moratorium also extends to creditors' claims for compensation of losses caused by the external manager's refusal to perform transactions and contracts, in accordance with Article 119 of this Law.

The rules provided by parts two and three of this article do not apply to monetary obligations and (or) taxes and duties the time for performance of which fell due after the introduction of the external management procedure.

The effect of the moratorium does not extend to claims of citizens arising from labor legal relations, for the recovery of alimony and the payment of remuneration under copyright contracts as well as to claims of citizens to whom the debtor is liable for harm caused to life or health.

Upon a petition of a creditor, the court may issue a ruling excluding from the scope of the moratorium monetary obligations in respect of which property has been furnished as security for the performance of the debtor's obligations in favor of the said creditor, where the property is not necessary for conducting external management.

Upon a petition of a creditor whose claims are secured by the debtor's property, the court may issue a ruling excluding such property from the effect of the moratorium in cases where:

the amount of the claims of the creditor or creditors secured by the debtor's property exceeds the value of the subject of pledge;

there is no protection against a decrease in the value of the pledged property;

the implementation of the external management plan does not affect the claims secured by the debtor's property;

it is necessary to adopt measures to preserve the pledged property as perishable products;

the judicial rehabilitation plan or the external management plan has not been approved within a certain time limit.

The article being commented on establishes the procedure and conditions for the application of the moratorium in the satisfaction of creditors' claims. A moratorium is the suspension of the performance by the debtor, a legal person, of monetary obligations and (or) obligations in respect of taxes and duties.

1. Part one of this article indicates which obligations of the debtor are suspended. Under it, the moratorium applies to monetary obligations and (or) taxes and duties the time for performance of which fell due before the introduction of the external management procedure.

The moratorium does not apply to:

(a) monetary obligations and (or) mandatory payments that arose after the introduction of the observation procedure with respect to the debtor and (or) judicial rehabilitation (part one of this article) as well as monetary obligations and mandatory payments the time for performance of which fell due after the introduction of external management (part five of this article), that is, current payments;

(b) claims of citizens arising from labor legal relations, claims for the recovery of alimony, claims for the payment of remuneration under copyright contracts as well as claims of a citizen to whom the debtor is liable for harm caused to life or health (part six of this article).

2. Part two of this article establishes the list of restrictions arising in connection with the introduction of external management and operating during the period in which the moratorium is in effect. During the period in which the moratorium is in effect, recovery under enforcement documents and other documents under which recovery is carried out in an unconditional (non-acceptance) manner is not permitted; penalties (fines, late-payment interest) and other economic (financial) sanctions for the non-performance or improper performance of monetary obligations and (or) obligations in respect of taxes and duties are not accrued (with the exception of monetary obligations and (or) interest payable that arose after the introduction with respect to the debtor of the observation procedure and (or) judicial rehabilitation).

3. Simultaneously with the prohibition on the accrual of penalties (fines, late-payment interest) and other economic (financial) sanctions for the non-performance or improper performance of obligations in respect of monetary obligations and (or) mandatory payments, a procedure is established under which interest is accrued on creditors' claims falling within the scope of the moratorium in the manner and amount provided by Article 327 of the CC. In accordance with the requirements of this article of the CC, the amount of interest is determined on the basis of the discount rate of bank interest in effect at the creditor's place of residence and, if the creditor is a legal person, at its place of location, on the day the demand is presented or on the day the court adopts its decision (at the court's discretion). This provision makes it possible to ensure the protection of creditors' interests. The part under consideration also establishes the time limits for the accrual and payment of interest. Under it, this interest is accrued on claims of the relevant priority from the date of introduction with respect to the debtor of the external management procedure and until the date on which the court issues the ruling commencing settlements with creditors in respect of claims of that priority or until the moment of adoption of the decision declaring the debtor bankrupt and commencing liquidation proceedings. The amount of accrued interest must be paid to the creditor simultaneously with the repayment of the principal debt amount.

4. In accordance with part four of this article, the moratorium also extends to creditors' claims for compensation of losses caused as a result of the external manager's refusal to perform a contract in accordance with Article 119 of the Law. Under part four of Article 119 of the Law, a party that has concluded a contract, where the debtor has declared a refusal to perform the contract with respect to it, has the right to demand from the debtor compensation of the actual damage arising as a consequence of the refusal to perform the contract. Even if the other party to the contract proves the actual damage that arose as a result of the debtor's refusal to perform the contract, the moratorium also applies with respect to such claim. The application of the moratorium to claims of this kind affords the external manager the possibility of determining which contractual obligations it is expedient to perform and the performance of which contractual obligations should be refused, without worsening the debtor's financial condition, and also makes it possible, by means of deferring the performance of obligations, to restore the debtor's solvency.

5. This provision means that the favorable rules established by parts two and three of this article do not apply to all obligations in the same manner. These rules operate only with respect to monetary obligations and taxes that arose before the introduction of the external management procedure. If monetary obligations or taxes arose after the introduction of the external management procedure, these benefits do not apply to them. This means that newly arisen debts must be performed in a timely manner and on a general basis. This procedure is aimed at preventing excessive protraction by the debtor of the performance of new obligations or evasion of their

performance. As a result, compliance with financial discipline is ensured during the period of external management as well.

6. Part six of this article lists the monetary obligations of citizens to which the effect of the moratorium does not apply. The moratorium does not apply to claims arising from labor legal relations, to claims for the recovery of alimony as well as to claims for the payment of remuneration under copyright contracts as well as to claims of a citizen to whom the debtor is liable for harm caused to his life or health.

7. Part seven of this article provides that, upon a petition of a creditor, the court may exclude property from the scope of the moratorium where the property serving as security for the performance of the debtor's obligations is not necessary for conducting external management. The court may issue a ruling excluding property from the scope of the moratorium where such property was furnished in favor of that creditor as security for the performance of the debtor's monetary obligations, on condition that such property is not necessary for conducting the external management procedure. The conditions and procedure for excluding property from the scope of the moratorium are established by part eight of Article 110.

8. Part eight of this article specifies in which cases the court may issue a ruling excluding property from the scope of the moratorium on the basis of a petition of a creditor whose claims are secured by the debtor's property.

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39. Under Article 110 of the Law, the moratorium on the satisfaction of creditors' claims extends to monetary obligations and (or) mandatory payments the time for performance of which fell due before the introduction of external management, with the exception of monetary obligations and (or) mandatory payments that arose after the introduction with respect to the debtor of observation and (or) judicial rehabilitation.

The moratorium does not extend to claims in respect of monetary obligations and (or) mandatory payments the time for performance of which fell due after the introduction of external management.

Where the amount of the claims of the creditor or creditors secured by the debtor's property exceeds the value of the subject of pledge, the property is excluded from the scope of the moratorium. In accordance with part two of Article 18 of the Law, the register of creditors' claims indicates information on each creditor, including the established amount of the creditor's claims in respect of monetary obligations and (or) obligations in respect of taxes and duties, as well as the priority of satisfaction of each of its claims. Under Article 5 of the Law of the Republic of Uzbekistan "On Pledge," any property, including things and property rights (claims),

may be the subject of pledge. Thus, where the amount of the claims of the secured creditor or creditors exceeds the value of the subject of pledge, that subject of pledge is excluded from the effect of the moratorium.

Even where there is no protection against a decrease in the value of the pledged property, a ruling excluding the property from the scope of the moratorium is adopted. Where the implementation of the external management plan does not affect the claims secured by the debtor's property, the property is also excluded from the scope of the moratorium.

Property is likewise excluded from the scope of the moratorium in cases where it is necessary to adopt measures to preserve the pledged property as perishable products. In addition, property may be excluded from the scope of the moratorium where the judicial rehabilitation plan or the external management plan has not been approved within the established time limit.

See also: International Commentary, p. 765.

Article 111. Procedure for Proposing the Candidacy of the External Manager

The meeting of creditors that has adopted a decision to apply to the court with a petition for the introduction of the external management procedure approves the candidacy of the external manager.

The candidacy of the external manager may be proposed to the meeting of creditors by any of the creditors or by the authorized state body.

The candidacy of the external manager that has received the greatest number of creditors' votes is proposed to the court, in accordance with the procedure for the adoption of decisions by the meeting of creditors provided by Article 17 of this Law.

Where the external management procedure is introduced by the court in the absence of a decision of the meeting of creditors to apply to the court with a petition for the introduction of the external management procedure, the meeting of creditors has the right to consider, approve and submit to the court the candidacy of the external manager within a three-week period from the moment the court issues the ruling on the introduction of the external management procedure.

Where the candidacy of the external manager is not submitted by the meeting of creditors, the court appoints the external manager from among the candidacies proposed by the authorized state body.

The article being commented on indicates the procedure for proposing the candidacy of the external manager, the participation in this matter of the authorized state body as well as the procedure for the approval of the candidacy by the meeting of creditors.

1. Part one of the article provides that the candidacy proposed for appointment as external manager is initially approved by the meeting of creditors that adopted the

decision to apply to the court with a petition for the introduction of the external management procedure. Under point 12 of the Regulation on the Procedure for Issuing a Qualification Certificate to Judicial Managers, approved by Resolution of the Cabinet of Ministers No. 838 of 30 December 2025, a judicial manager must meet the following principal qualification requirements: have higher education; have at least two years of work experience in the field of economics, finance, accounting or audit, as a tax consultant or in the field of law; pass a qualification examination at an authorized organization.

In addition, the following additional qualification requirements are imposed on the external manager: persons carrying out the external management procedure must have work experience as a judicial manager in conducting the judicial rehabilitation procedure and (or) liquidation proceedings at least twice as a judicial manager of the second category and must not have been downgraded from a high level in the rating of judicial managers during the year, or must have work experience as a judicial manager of the second category of at least twelve months as well as previously have at least five years of work experience in a managerial position (manager or deputy manager in state administration bodies, local authorities or judicial bodies, manager in economic companies and others) and hold at the minimum a high level in the rating of judicial managers for three consecutive quarters.

2. Under this provision, the candidacy for the position of external manager may be proposed not only by individual persons but by a wide range of subjects. For example, any creditor, regardless of whether it is small or large, has the right to submit its candidate for consideration by the meeting of creditors. The authorized state body may also put forward a candidacy for external manager.

Such a procedure promotes openness and competition in the selection of a candidate. Candidacies are considered at the meeting of creditors and the person recognized as the most suitable is selected. As a result, in selecting the person carrying out external management, various interests are taken into account, which creates the possibility of achieving effective management.

3. At the meeting of creditors, the candidacy of the person who has received the greatest number of creditors' votes is proposed to the court, and the procedure for adopting a decision at the meeting is carried out in accordance with Article 17 of the Law. Under part three of Article 17 of the Law, a decision to apply to the court with a petition for the appointment, replacement or release of a judicial manager from the performance of duties is adopted by the meeting of creditors by a majority of the votes of all creditors having the right to vote. Where there is no quorum of creditors having the right to vote necessary for the adoption of decisions at the meeting of creditors, a repeat meeting of creditors is convened. On condition that the creditors were duly notified of the date, time and place of the meeting of creditors, such repeat meeting has the right to adopt these decisions by a majority of the votes of the number of creditors having the right to vote and present at the meeting.

4. Part four of this article establishes the time limit for the meeting of creditors to submit the candidacy of the external manager to the court that has issued a decision on the introduction of the external management procedure without a decision of the meeting of creditors. Under it, the meeting of creditors has the right to submit the candidacy of the external manager to the court within a three-week period from the day the ruling on the introduction of the external management procedure is issued. In accordance with part eight of Article 12 of the Law, where the meeting of creditors has adopted a decision declaring the debtor bankrupt and commencing liquidation proceedings, the court, taking into account the conclusion of the interim manager on the existence of a possibility of restoring the debtor's activity, has the right to introduce with respect to the debtor one of the procedures for restoring its solvency. In such a situation, under part four of Article 92 of the Law, until the appointment of the external manager, the performance of his duties in full is entrusted to the person who previously performed the duties of the interim manager.

5. Under this provision, if the meeting of creditors does not propose any candidacy for the position of external manager, the court independently appoints the external manager from among the candidacies recommended by the authorized state body. For example, if no agreement is reached at the meeting of creditors regarding the candidacy of the external manager or no candidacy is proposed at all, the court, in order to avoid protracting the consideration of the case, selects one of the specialists submitted by the authorized state body. Such a procedure ensures the continuity of the external management process, prevents the occurrence of a management vacuum and promotes the effective organization of the insolvency proceedings.

Article 112. Appointment of the External Manager

The external manager is appointed by the court simultaneously with the introduction of the external management procedure.

Where it is not possible to appoint the external manager simultaneously with the introduction of external management, the court appoints the external manager within a one-month period from the moment of introduction of the external management procedure.

On the appointment of the external manager, the court issues a ruling.

The court ruling on the appointment of the external manager is subject to immediate execution and may be appealed (protested).

The article being commented on indicates the procedure for the appointment of the external manager, the issuance by the court of the ruling on his appointment, as well as the possibility of appealing (protesting) this ruling.

1. Under this provision, the external manager is appointed not separately at a later time but simultaneously with the introduction of the external management procedure.

In doing so, the court, when issuing the ruling on the introduction of the external management procedure, in that same ruling also appoints the external manager.

Such a procedure ensures that there is no gap in management, since the external manager must immediately commence the performance of his duties. Thus, the activity of the debtor enterprise continues without interruption and the control system is not delayed. As a result, measures aimed at restoring solvency are carried out quickly and effectively.

2. Under part four of Article 111 of the Law, where the court introduces the external management procedure in the absence of a decision of the meeting of creditors to apply to the court with a petition for the introduction of the external management procedure, the meeting of creditors has the right, within a three-week period from the day the court issues the ruling on the introduction of the external management procedure, to consider, approve and submit to the court the candidacy of the external manager. In this situation, the external manager is deemed to have been appointed by the court not simultaneously with the introduction of external management but after a certain period. Where it is not possible to appoint the external manager simultaneously with the introduction of the external management procedure with respect to the debtor, the external manager is appointed by the court within one month after the introduction of external management.

3. On the appointment of the external manager, the court issues a ruling. Where, as indicated in part two of this article, it is not possible to appoint the external manager simultaneously with the introduction of external management, the court issues a separate ruling on the appointment of the external manager.

4. The court ruling on the appointment of the external manager is subject to immediate execution. Part three of Article 27 of the Law of the Republic of Uzbekistan "On the Execution of Judicial Acts and Acts of Other Bodies" provides that, in cases where a judicial act is subject to immediate execution, it must be executed from the day following the day of its issuance. Under part three of Article 199 of the EPC, unless a different time limit is established by the EPC, a complaint (protest) may be filed against the ruling within a period not exceeding one month from the day on which the ruling is issued.

Article 113. Release of the External Manager from the Performance of his Duties

The external manager may be released by the court from the performance of his duties in the following cases:

in accordance with his application;

non-performance or improper performance of the duties imposed on him, on the basis of a decision of the meeting of creditors. In this case, the decision of the meeting of creditors must contain information on the candidacy of the new external manager;

on the basis of an application of the authorized state body;

the identification of circumstances, in accordance with Article 22 of this Law, that preclude the appointment of the person as external manager.

The external manager may be released from the performance of his duties in other cases as well, in accordance with legislation.

The court ruling on the release of the external manager from the performance of his duties is subject to immediate execution and may be appealed (protested). The appeal (protest) of the said ruling does not suspend its execution.

The article being commented on establishes that the external manager may be released by the court from the performance of his duties at his own application, in connection with the improper performance by him of his duties, at the initiative of the authorized body or the meeting of creditors as well as where circumstances precluding his appointment are identified, with the ruling thereon being subject to immediate execution.

1. Part one of this article defines the grounds for the release of the external manager from the performance of his duties as well as the range of persons who may apply to the court with an application (petition) for the release of the external manager from the performance of his duties. The external manager may be released by the court from the performance of his duties in the following cases: at his own application; on the basis of a decision of the meeting of creditors in the event of non-performance or improper performance by him of the duties imposed on him. In such a case, the decision of the meeting of creditors must contain information on the new candidate recommended for the position of external manager; on the basis of an application of the authorized state body; where circumstances precluding the appointment of the person as external manager in accordance with Article 22 of the Law are identified.

Article 22 of the Law specifies persons who may not be appointed as judicial managers; they include:

persons who are interested parties with respect to the debtor or creditors;

persons having an unexpunged or unspent conviction;

persons declared by a court to lack legal capacity;

individual entrepreneurs or physical persons with respect to whom an insolvency procedure has been introduced;

persons who, in previously performing the duties of a judicial manager, caused harm to the debtor or creditors and have not compensated such harm;

persons with respect to whom, by a decision of the authorized state body, the effect of the judicial manager’s certificate has been terminated (annulled) and (or) temporarily suspended (for the term of the temporary suspension of the effect of the judicial manager’s certificate);

persons with respect to whom a restriction has been established on carrying out activity in the management of the affairs and (or) property of other persons (persons deprived of the right to engage in such activity).

2. Other cases in which the external manager may be released from the performance of his duties are established by legislation. Under part two of Article 29 of the Law, the authorized state body exercises control over the activity of judicial managers in accordance with legislation and, where a systematic or single gross violation of legislation is identified in the activity of a judicial manager, applies to the court with an application for his release from the performance of duties.

3. Under this provision, if the court issues a ruling on the release of the external manager from the performance of his duties, it enters into force immediately and is subject to immediate execution. In doing so, the external manager immediately ceases the exercise of his powers.

At the same time, interested parties who do not agree with this ruling have the right to file a complaint against it and the prosecutor has the right to bring a protest. However, even where such a complaint is filed or a protest is brought, the execution of the ruling is not suspended.

See also: International Commentary, p. 766.

Article 114. Rights of the External Manager

The external manager exercises the powers of the debtor's manager.

The external manager has the right to:

convene the meeting of creditors and the committee of creditors;

dispose of the debtor's property with the restrictions provided by Article 118 of this Law;

conclude a settlement agreement on behalf of the debtor;

receive remuneration in accordance with Article 26 of this Law;

engage other persons on a contractual basis to carry out his functions, with payment for their activity from the debtor's funds, unless otherwise established by this Law or by an agreement with creditors;

file with the court an application for the early termination of the performance of his duties;

submit to the court an application for the recognition of the debtor's contracts as invalid, in the manner established by Articles 63–65 of this Law;

obtain loans from commercial banks and financial institutions to restore the debtor's solvency as well as obtain financial assistance from legal persons and physical persons interested in the continuation of the debtor's activity;

request information and documents relating to the debtor from the debtor's manager, the debtor's founders and (or) state bodies;

use, without prepayment, state services, including through state service centers, to ensure the exercise of his rights and the performance of his duties;

declare a refusal to perform the debtor's contracts, in the manner established by Article 119 of this Law.

In exercising his rights and performing his duties, the external manager has the right to present demands against persons who, in accordance with legislation, bear subsidiary liability for the debtor's monetary obligations in connection with bringing it to insolvency.

The external manager may also have other rights in accordance with legislation.

The article being commented on defines the rights of the external manager relating to the exercise of the powers of the debtor's manager, the convening of the meeting of creditors, the disposal of the debtor's property, the conclusion of agreements, the presentation of demands for the recognition of transactions as invalid, the raising of financial resources, the requesting of information, the use of state services as well as the exercise of other rights provided by legislation.

1. Under this provision, after the introduction of external management, the powers of the manager of the debtor enterprise pass to the external manager, that is, the external manager performs the functions of the manager in managing the enterprise, adopting decisions and carrying out its activity. In this case, the acting manager loses his powers or they are restricted.

This procedure is aimed at the financial recovery of the enterprise by means of independent and objective management. The external manager adopts decisions taking into account the interests of creditors.

2. In this provision, the rights of the external manager are defined sufficiently broadly, which attests to his having the possibility of exercising full and effective management of the debtor enterprise.

The external manager, first of all, organizes the process of discussing and coordinating important decisions by convening the meeting of creditors and the committee of creditors. At the same time, observing the restrictions established by law, he has the right to dispose of the debtor's property, that is, to exercise the rights to its management and use.

He may conclude agreements on behalf of the debtor, receive remuneration for his work and, where necessary, engage other specialists on a contractual basis to perform the duties imposed on him. In addition, the external manager has the right to apply to the court with an application for the early termination of the performance of his powers.

The Law also affords him the right to apply to the court with a demand for the recognition of certain of the debtor's contracts as invalid or for a refusal to perform them. This creates the possibility of withdrawing from harmful or unfavorable transactions.

In financial terms, the external manager, in order to restore the enterprise, may raise loans and financial assistance from banks, financial organizations, or other interested parties.

He also has the right to demand the provision of all necessary information and documents relating to the debtor as well as to use state services without the charging of a fee. As a result, such powers afforded to the external manager serve to bring the enterprise out of crisis and to restore its solvency.

3. Under this provision, the external manager is not limited solely to managing the debtor enterprise but may also adopt legal measures with respect to persons who have become the cause of its insolvency. If certain persons (for example, managers,

founders or other responsible persons) have, by their actions or inaction, brought the enterprise to financial crisis, the external manager has the right to present demands against them.

These persons, in accordance with legislation, bear subsidiary liability, that is, they may additionally answer for the obligations of the enterprise in the repayment of its debt. The external manager has the right to apply to the court and to demand from such persons compensation of losses or recovery of debt. This provision is aimed at ensuring fairness and makes it possible to hold liable persons who, deliberately or as a result of improper management, brought the enterprise to a distressed state. As a result, the protection of creditors' interests is ensured and additional sources are created for the repayment of debt.

4. The external manager also has other rights in accordance with legislation. For example, under part one of Article 23 of the Law, the judicial manager has the right to:

convene the meeting of creditors;

demand the convening of the committee of creditors in the cases provided by the Law;

apply to the court with statements of claim and other applications without the prior payment of the state duty;

receive remuneration in accordance with Article 26 of the Law;

engage other persons on the basis of a contract to perform the duties imposed on him, with payment for their activity at the expense of the debtor's funds, unless otherwise provided by an agreement concluded with creditors;

use state services, including services rendered through state service centers, without prior payment;

obtain free of charge from physical persons and legal persons (including from credit organizations) as well as from state bodies information on the debtor's property, its accounts and deposits, including credit cards, electronic balances and electronic money transfers;

request from the debtor, a physical person, information on its activity in implementing the plan for the restructuring of the debt of a physical person;

obtain the information necessary for the performance of the duties imposed on him from the bodies of the state tax service and the customs bodies, extrabudgetary funds, the bodies carrying out the state registration of documents on immovable property as well as from other authorized bodies possessing the necessary information on the debtor enterprise and the property belonging to it;

apply to the court with an application for the early termination of the performance of his duties.

See also: International Commentary, p. 766.

Article 115. Duties of the External Manager

The external manager is obliged to:
accept the debtor's property and carry out its inventory;
adopt measures aimed at searching for, identifying and returning the debtor's property held by third persons;
open a special account for conducting external management and settlements with creditors;
develop and submit to the meeting of creditors for approval the external management plan;
maintain financial, accounting and statistical records and ensure reporting;
declare objections to creditors' claims presented against the debtor;
adopt measures to recover debt owed to the debtor;
maintain the register of creditors' claims;
submit to the meeting of creditors reports on the progress and results of the implementation of the external management plan;
provide, upon a creditor's demand, within a ten-day period, information on the debtor's financial condition and (or) his own activity;
provide information on the progress of implementation of the external management plan to the meeting of creditors and the committee of creditors as well as, if the state holds a share in the debtor's charter fund (charter capital), to the authorized state body.
The external manager may also bear other duties in accordance with legislation.

The article being commented on establishes the duties of the external manager, such as accepting the debtor's property and carrying out its inventory, searching for and returning property, opening a special account, developing and submitting the external management plan, conducting settlements and reporting, working with creditors' claims, adopting measures to recover debt, maintaining the register as well as regularly providing information and reports to creditors and the authorized body.

1. Part one of this article establishes the duties of the external manager, which indicates that he is the person responsible for the full management and restoration of the debtor enterprise.

First of all, the external manager accepts all the debtor's property, carries out its inventory, as well as searches for assets held by third persons and adopts measures for their return. As a result, the real financial condition of the enterprise is determined and lost assets are restored.

He opens a special account for carrying out external management, maintains accounting, financial and statistical records as well as ensures the maintenance of reporting. This process serves to ensure financial discipline and transparency.

The external manager develops the external management plan, submits it to the meeting of creditors for approval and subsequently ensures its implementation. At

the same time, he has the right to declare objections regarding creditors' claims, to adopt measures to recover debt in favor of the debtor and to maintain the register of creditors' claims.

He regularly submits to the meeting of creditors reports on the progress of implementation of the plan and its results as well as, upon a creditor's demand, within ten days, provides information on the debtor's financial condition.

At the same time, the external manager informs the creditors, the committee of creditors and, where necessary, state bodies of the progress of the external management procedure. As a result, he plays a key role in restoring the enterprise, protecting the interests of creditors and ensuring the transparency of the procedure.

2. The external manager also has other duties in accordance with legislation. Under part three of Article 26 of the Law, the judicial manager is obliged to: adopt measures to ensure the preservation of the debtor's property; form and maintain the register of creditors' claims; carry out an analysis of the debtor's financial condition; upon a creditor's demand, within ten days, provide information on the debtor's financial condition and (or) on his own activity; carry out actions and adopt measures to identify signs of fictitious insolvency, concealment of insolvency or deliberate bringing to insolvency as well as report the identification of such signs to the meeting of creditors, the court, the authorized state body as well as the law-enforcement bodies; exercise control over the implementation of the plan for the restructuring of the debt of the debtor, a physical person; control the timely and full payment by the debtor, a physical person, of monetary funds for the full satisfaction of creditors' claims; perform the duties imposed on him by judicial acts.

See also: International Commentary, p. 766.

Article 116. Creditors' Claims

Creditors have the right to present their claims against the debtor at any time during the term in which the external management procedure is in effect. The said claims are sent to the external manager at the postal address of the place of location and (or) the electronic mail address of the debtor. Creditors' claims recognized as established in accordance with part four of this article are sent to the external manager with the attachment of documents making it possible to determine the said claims as established.

The external manager considers the creditors' claims presented and, following their consideration, makes the corresponding entry in the register of creditors' claims no later than two weeks after receipt of the corresponding claim. The external manager notifies the corresponding creditor of the results of consideration within a period not exceeding one month from the moment of receipt of the creditor's claims.

Objections to the results of the consideration by the external manager of creditors' claims may be declared by a creditor to the court considering the insolvency case within a one-month period from the moment of receipt of the notice.

Creditors' claims in respect of which no objections have been declared within the time limit provided by part three of this article are deemed established in the amount, composition and priority of satisfaction determined by the external manager.

A creditor may independently, in a notarial manner, transfer the right of claim against the debtor to other persons. In doing so, the person who has acquired the right of claim must apply to the debtor's external manager within ten days for the inclusion of the claim in the register of creditors' claims.

The article being commented on establishes the procedure for presenting, considering and including in the register the claims of creditors against the debtor in the course of the external management procedure as well as the rules for declaring objections to these claims and transferring the right of claim to another person.

1. Part one of this article provides for the possibility of including in the register of claims the claims of creditors that were not included in it in the previous procedures of the insolvency case as well as establishes that creditors have the right to present their claims against the debtor at any time during the term in which external management is in effect, but before the completion of the external management procedure. Creditors' claims are sent to the external manager with the attachment of documents making it possible to establish these claims as justified and determined.

Under part one of Article 87 of the Law, creditors have the right to present their claims against the debtor within thirty days from the moment of publication in the mass media of information on the introduction with respect to the debtor of the observation procedure, in order to participate in the first meeting of creditors. Creditors who did not declare their claims against the debtor in the observation procedure have the right, at any time in the course of external management, to apply with an application for the inclusion of their claims in the register. The Law does not establish a special rule as to whether the inclusion of a creditor's claims in the register during the judicial rehabilitation procedure is possible or impossible. However, under part four of Article 94 of the Law, the amount of the security furnished for the performance of obligations must be at least twenty percent greater than the amount of debt indicated in the debt-repayment schedule drawn up on the basis of the claims reflected in the balance sheet as at the last reporting date before the holding of the meeting of creditors on the question of introducing the judicial rehabilitation procedure and included in the register of creditors' claims. Consequently, in the judicial rehabilitation procedure, where security was furnished, a change in the amount of the claims included in the register of creditors' claims (an increase or decrease) is not permitted, and newly established creditors' claims are likewise not included in the register.

Under part two of Article 143 of the Law, the information published in connection with the declaration of the debtor as bankrupt and the commencement of liquidation proceedings must indicate the established time limit for the presentation of claims by creditors (this time limit may not be less than one month from the day

of publication of such announcement). Under part three of Article 154 of the Law, creditors' claims declared after the expiry of the time limit for the presentation of claims by creditors provided in the announcement on the commencement of liquidation proceedings as well as claims in respect of taxes and duties that arose after the commencement of liquidation proceedings, irrespective of the time limit for their presentation, are satisfied in the manner provided by Article 150 of the Law, after the satisfaction of the claims of the debtor's creditors declared within the established time limit.

2. This provision clearly establishes the duties of the external manager and the time limits in considering creditors' claims. Under it, after receipt of the claim presented by a creditor, the external manager is obliged to verify it and to make the corresponding entry in the register of creditors' claims no later than two weeks. For example, if a creditor on 1 August presents a claim for the recovery from the debtor of 200 million sums, the external manager must, no later than 15 August, enter this claim in the register or adopt a decision on it. At the same time, the external manager is obliged to notify the creditor of the results of consideration of the claim no later than one month from the day of its receipt, that is, in the above example, an official reply must be sent to the creditor no later than 1 September. This provision is aimed at ensuring the timely and transparent consideration of creditors' claims as well as at strengthening procedural control over the activity of the external manager.

3. Under this provision, if a creditor does not agree with the result of the consideration by the external manager of its claim, it has the right, within one month, to declare an objection to the court considering the insolvency case. In doing so, the said time limit is calculated not from the moment the external manager adopts the decision but from the moment the creditor became aware of that decision. For example, if the external manager on 1 June refused the creditor's claim in the amount of 500 million sums but the creditor learned of this on 10 June, the time limit for applying to the court is calculated from 10 June. Or, if the creditor's claim is recognized in part—for example, of 300 million sums only 100 million sums are recognized—the creditor likewise has the right to file an objection with the court. This provision is aimed at protecting the rights of creditors, ensuring judicial control over the actions of the external manager as well as strengthening procedural fairness.

4. The content of this provision lies in the fact that, if creditors do not declare objections within the established time limit regarding the claims presented against the debtor, such claims are deemed accepted without additional verification, and the external manager recognizes them and enters them in the register in the amount, composition and priority of satisfaction determined by him.

5. Creditors may independently transfer to other persons the right of claim against the debtor in a notarial manner. In doing so, the person who has received the right of claim is obliged, within ten days, to apply to the external manager for the inclusion of the claim in the register of creditors' claims. In accordance with Article 313 of the CC, a right (claim) belonging to a creditor on the basis of an obligation

may be transferred by it to another person by a transaction (assignment of the claim in favor of another person) or pass to another person on the basis of law. For the passing of the creditor's rights to another person, the debtor's consent is not required unless otherwise provided by law or contract. Unless otherwise provided by law or contract, the right of the original creditor passes to the new creditor in the volume and on the conditions that existed at the moment of the passing of the right. In particular, there pass to the new creditor the rights securing the performance of the obligation as well as other rights relating to the claim, including the right to receive unpaid interest. Under Article 314 of the CC, the passing to another person of rights inseparably linked with the person of the creditor, in particular claims for alimony as well as claims for compensation of harm caused to life or health, is not permitted.

Article 117. Consideration of Creditors' Objections

Creditors' objections regarding the amount, composition and priority of satisfaction of their claims determined by the external manager, filed within the time limits determined by Article 116 of this Law, are considered by the court no later than one month from the date of receipt of the said objections.

Following the consideration of creditors' objections, a court ruling is issued, in which are indicated the amount, composition and priority of satisfaction of the claims of the creditors with respect to whom the creditors' objections have been found justified.

The court ruling issued following the consideration of creditors' objections may be appealed (protested). Rulings and other judicial acts issued in the consideration of creditors' objections within the framework of the insolvency case have prejudicial force in the consideration of creditors' claims against the debtor in separate proceedings.

In the manner established by this article, objections of the representative of the debtor's workers regarding the amount and composition of the debt for the payment of labor and the payment of severance allowance to persons working under an employment contract are also considered.

The article being commented on establishes the procedure for the consideration by the court of creditors' objections regarding the amount, composition and priority of satisfaction of the claims determined by the external manager.

1. Creditors' objections declared in connection with disagreement with the results of the consideration by the external manager of their claims are considered within the framework of the insolvency case on the basis of an application filed with the court in the manner established by Article 116 of the Law and the EPC. These objections are considered by the court no later than one month from the day of their receipt.

2. Under this provision, the court, having considered the objections declared by creditors, adopts a ruling on which part of these objections is justified, and in this ruling establishes the exact amount of the creditor's claim, its composition as well as

the priority in which it is subject to satisfaction. For example, if a creditor demanded from the debtor 1 billion sums but the external manager recognized only 600 million sums, the creditor has the right to file an objection with the court. The court, having verified the documents and evidence, may, for example, find justified an additional claim in the amount of 200 million sums. In such a case, the ruling will indicate that the creditor's claim is recognized in the amount of 800 million sums as well as determine in which priority it is subject to satisfaction. Thus, this provision ensures the lawful and fair establishment of creditors' claims as well as the determination of the priority of their satisfaction under the control of the court.

3. A complaint may be filed or a protest brought against the court ruling issued following the consideration of creditors' objections. The Law also establishes that rulings and other judicial acts issued in the consideration of creditors' objections within the framework of the insolvency case have prejudicial force in the consideration of creditors' claims against the debtor in separate proceedings. This means that rulings and other judicial acts issued in the consideration of creditors' objections within the framework of the insolvency case have binding force for subsequent judicial proceedings and do not require additional proof.

4. Under part four of this article, in the insolvency process the court protects not only the interests of creditors but also the interests of the workers of the debtor enterprise. If the representative of the debtor's workers considers that the debt for severance allowance payable to workers or persons working on the basis of an employment contract has been incorrectly calculated, reduced, or not included in full, he has the right to declare an objection to the court. For example, if the external manager indicated the debt for wages owed to workers in the amount of 300 million sums but the representative of the workers substantiates that it actually amounts to 450 million sums, the court considers this objection in the manner established by this article. The court verifies the documents, calculations, and evidence and determines the actual amount and composition of the debt. This provision is aimed at ensuring reliable protection of the labor rights and social interests of workers even in the insolvency process.

Article 118. Disposal of the Debtor's Property

The owner of the debtor's property or the bodies authorized by the constituent documents do not have the right to adopt decisions or otherwise restrict the powers of the external manager to dispose of the debtor's property, with the exception of the cases provided by this Law.

Major transactions and transactions in which there is an interest are concluded by the external manager only with the consent of the meeting of creditors or the committee of creditors, unless otherwise provided by this Law or by the external management plan.

Major transactions include transactions entailing the disposal of immovable property or other property of the debtor the book value of which exceeds ten

percent of the book value of the debtor's assets at the moment of conclusion of the transaction.

Transactions in the commission of which there is an interest are recognized as transactions a party to which are interested parties with respect to the external manager or a creditor.

The article being commented on establishes that, in the external management process, the power to dispose of the debtor's property belongs principally to the external manager, while major transactions as well as interested-party transactions may be concluded only with the consent of the meeting of creditors or the committee of creditors.

1. During the period of external management, the external manager acts in the interests of creditors and coordinates with them questions of the disposal of the debtor's property. The owner of the debtor's property or the bodies authorized by the constituent documents, with the exception of the cases provided by law, do not have the right to adopt decisions on the disposal of the debtor's property or otherwise restrict the powers of the external manager. These provisions restrict the powers of the debtor in the sphere of management and disposal of the debtor's property and create conditions for the effective and full performance by the external manager of the duties imposed on him. Under part three of Article 131 of the Law, the substitution of the debtor's assets by means of creating, on the basis of the debtor's property, one or several joint-stock companies may be included in the external management plan on the basis of a decision of the owner of the debtor's property or the management body of the debtor to which the constituent documents grant the power to adopt decisions on the conclusion of the relevant transactions. The provisions of part three of Article 131 of the Law may serve precisely as an example of an exceptional case provided by law.

2. Under this provision, the external manager does not have the right to independently conclude major transactions as well as interested-party transactions that may substantially affect the property or interests of the debtor, and such transactions may be carried out only with the consent of the meeting of creditors or the committee of creditors. For example, if the external manager intends to sell a large production building belonging to the debtor enterprise or to conclude a contract with a person close to him, he is obliged to obtain the consent of the creditors. This provision is aimed at ensuring control over the activity of the external manager, preventing the unjustified disposal of property or a conflict of interest, as well as protecting the rights of creditors.

3. This provision clearly determines which transactions relating to the debtor's property are deemed major transactions. Under it, if, as a result of the transaction, immovable property of the debtor is alienated, or the value of other property constitutes more than ten percent of the book value of the debtor's assets, such transaction is recognized as a major transaction. For example, if the total value of the

assets of the debtor enterprise constitutes 10 billion sums, the sale or transfer to another person of property worth more than 1 billion sums is deemed a major transaction. Likewise, transactions relating to buildings, structures or land plots belonging to the enterprise may fall within this category irrespective of their value. This provision is aimed at preventing the unjustified alienation of significant assets of the debtor in the external management process and protecting the interests of creditors.

4. Transactions in which there is an interest include transactions where one of the parties concluding the transaction is an interested party with respect to the external manager or a creditor. In accordance with Article 21 of the Law, interested parties with respect to the debtor-legal person, are: a legal person that, in accordance with legislation, is principal or dependent with respect to the debtor; the debtor's manager as well as persons forming part of the supervisory board, the collegial executive body, the chief accountant (accountant), including in cases where the employment contract with them was terminated within one year before the commencement of the insolvency case; the founders (participants) of the legal person or the owner of the debtor's property. In this Law, interested parties with respect to a physical person as well as with respect to the individual entrepreneur debtor, are understood to mean: his spouse, relatives in the direct ascending and descending line of kinship, full brothers and sisters as well as their relatives in the descending line of kinship, the parents of the spouse, the brothers and sisters of the spouse. Interested parties with respect to judicial managers and creditors are determined on the basis of the above list of persons.

See also: International Commentary, p. 766.

Article 119. Refusal to Perform the Debtor's Contracts

The court ruling on the introduction of the external management procedure may not serve as a ground for the suspension of, or refusal to perform, the debtor's contracts and other transactions concluded before the commencement of the insolvency case. The performance of contracts concluded before the commencement of the debtor's insolvency case that are deemed important for the continuation of the debtor's activity is continued by the external manager, with the exception of the cases provided by this Law. In doing so, an agreement of the parties on the suspension of performance or refusal to perform contracts concluded by the debtor in connection with the introduction of the external management procedure with respect to the debtor is deemed invalid, with the exception of the cases provided by this Law.

The external manager has the right to refuse to perform the debtor's contracts concluded before the commencement of the insolvency case only with respect to contracts that have not been performed by all parties in full or in part, where one of the following circumstances exists:

the performance of the debtor's contracts will entail losses for the debtor and (or), in comparison with similar contracts concluded in comparable

circumstances, violates the rights and lawful interests of the debtor and creditors;

the contract is long-term (concluded for a term of more than one year) or is designed to yield positive results for the debtor only over the long term;

the contract provides for the preferential satisfaction of the claims of one creditor in comparison with the claims of other creditors;

there exist other circumstances precluding the restoration of the debtor's solvency.

In the cases provided by part two of this article, the contract is deemed terminated from the moment of receipt by all parties to such contract of the external manager's declaration of refusal to perform the contract.

A party to a contract with respect to which the debtor's refusal has been declared has the right to demand from the debtor compensation of the actual damage caused by the refusal to perform the contract.

The article being commented on establishes that the external manager has the right to refuse to perform certain contracts that preclude the restoration of the debtor's solvency or cause damage to the interests of creditors. At the same time, the performance of contracts of substantial significance for the debtor's activity must be continued, and as a result of such refusal a demand for compensation of the actual damage caused may be declared.

1. Under part one of this article, the court ruling on the introduction of the external management procedure is not a ground for the suspension of performance of, or refusal to perform, contracts concluded before the commencement of the debtor's insolvency case. This means that contracts of important significance for the continuation of the debtor's activity, if they were concluded before the commencement of the insolvency case, must be performed by the external manager. Exceptions may be provided by legislation. If the debtor and the party to the contract, after the commencement of the insolvency case, agreed on the termination of performance of the contract or on a refusal to perform it, such contracts are invalid automatically. Under Article 113 of the CC, a transaction is deemed invalid by virtue of its recognition as such by a court on the grounds established by this Code and other laws (a voidable transaction) or irrespective of such recognition (a void transaction). Any interested person may declare a demand for the application of the consequences of the invalidity of a void transaction. The court has the right to apply such consequences on its own initiative. Under part one of Article 116 of the CC, a transaction the content of which does not correspond to the requirements of legislation as well as a transaction committed with the deliberate purpose of contravening the foundations of law and order or morality is void.

2. Part two of this article establishes the conditions under which the debtor has the right to refuse (terminate) the full or partial performance of contracts concluded by the debtor before the commencement of the insolvency case. Under Article 237 of the CC, the unilateral refusal to perform an obligation and the unilateral change of

the conditions of a contract are not permitted, with the exception of the cases provided by legislation or contract. As an exception established by legislation, part two of this article of the Law may be cited precisely. In addition, under part four of Article 382 of the CC, if one of the parties fully or partially refuses to perform a contract, where this is permitted by law or by an agreement of the parties, the contract is deemed correspondingly terminated or amended.

In particular, if the performance of a contract causes losses to the debtor, violates the interests of creditors, or is unprofitable in comparison with market conditions, the external manager may not continue its performance. For example, if the debtor assumed an obligation to supply products at a price significantly below the market price and this causes the enterprise substantial financial damage, the external manager may refuse to perform such a contract. Likewise, contracts designed for a term of more than one year and capable of yielding benefit only over the long term may be terminated if they worsen the current financial position of the debtor. In addition, by means of refusing contracts that unjustifiably afford certain creditors an advantage or preclude the restoration of the debtor's solvency, the external manager ensures the equal protection of the interests of all creditors.

3. Under this provision, if the external manager, having established the existence of the grounds provided by law, sends a declaration of refusal to perform a contract, such contract is deemed terminated from the moment of receipt of this declaration by the parties to the contract. For example, if the external manager refuses to perform a supply contract that causes losses to the debtor and sends the counterparty an official notice thereof, the contract ceases to be in effect from the day of receipt of such notice. In doing so, the termination of the contract does not require the conclusion of an additional agreement or the awaiting of a court decision. This provision creates the possibility of the prompt termination of loss-making or ineffective contracts in the external management process. At the same time, the clear determination of the moment of termination of the contract makes it possible to prevent the occurrence of legal uncertainty between the parties.

3. A party that has concluded a contract, where the debtor has declared to it a refusal to perform the contract, has the right to demand from the debtor compensation of the actual damage arising as a consequence of the refusal to perform the contract. Under part two of Article 14 of the CC, losses are understood to mean the expenses that a person whose right has been violated has incurred or will have to incur for the restoration of the violated right, the loss of or damage to its property (actual damage) as well as the income that this person would have received under ordinary conditions of civil turnover had its rights not been violated but did not receive (lost profit).

See also: International Commentary, p. 766.

Article 120. Monetary Obligations of the Debtor Arising in the Course of External Management

In cases where the amount of the debtor's monetary obligations arising in the course of the external management procedure exceeds twenty percent of the amount of creditors' claims in accordance with the register of creditors' claims, transactions entailing new monetary obligations of the debtor, with the exception of those provided by the external management plan, may be concluded by the external manager only with the consent of the meeting of creditors or the committee of creditors.

Transactions committed in violation of part one of this article may be recognized by the court as invalid upon an application of a creditor as well as of a newly appointed external manager where they were committed by the person who previously performed the duties of the debtor's external manager.

The article being commented on establishes restrictions on the conclusion of transactions by the external manager in the external management process, as well as the necessity of obtaining the consent of the meeting of creditors or the committee of creditors in the conclusion of certain transactions, and the consequences of a violation of the established restrictions.

1. The Law contains a control provision that establishes the permissible limit of the increase in the debtor's debt during the period of external management. This limit equals twenty percent of the amount of creditors' claims included in the register. After the introduction of external management, if the debtor's monetary obligations exceed the established control limit, the external manager loses the right, without the consent of the meeting of creditors (committee of creditors), to conclude transactions that may entail the occurrence of new monetary obligations for the debtor. At the same time, the said restriction does not extend to transactions provided by the external management plan, since, as a general rule, the external management plan is approved by the meeting of creditors, and the transactions provided by this plan are in fact already approved by the meeting of creditors. The purpose of this restriction is to ensure the interests of all creditors, since the claims arising in the external management process are current payments and are subject to satisfaction out of priority. Under Article 4 of the Law, monetary obligations and (or) obligations in respect of taxes and duties that arose from the date of commencement of the insolvency proceedings are current payments. Creditors' claims in respect of current payments are not included in the register of creditors' claims. In accordance with Article 150 of the Law, claims in respect of the debtor's current payment obligations that arose after the commencement of the insolvency case are satisfied out of priority.

2. This provision indicates the consequences of a violation of the requirements of part one of this article. Under it, transactions concluded by the external manager without the consent of the meeting of creditors (committee of creditors) may be

recognized by the court as invalid. Applications for the recognition of such transactions as invalid may be filed by a creditor as well as by a newly appointed external manager. In accordance with part one of Article 63 of the Law, any transaction committed by the debtor, including a transaction committed by the debtor before the commencement of the insolvency case or before the introduction of the external management or judicial rehabilitation procedures, may be recognized by the court as invalid on the grounds provided by legislation, upon an application of the judicial manager. Under Article 67 of the Law, if a transaction committed by the debtor is recognized by the court as invalid and the consequences of its invalidity are applied, the party is obliged to return to the other party everything received under the transaction. Where the return of what was received in kind is impossible (including where what was received is expressed in the form of the use of property, the performance of works or the rendering of services), then, unless other consequences of the invalidity of the transaction are provided by legislation, the party is obliged to compensate its value in monetary form.

See also: International Commentary, p. 768.

Article 121. Regulation of the Debtor's Expenses

Decisions entailing an increase in the debtor's expenses on consumption, including on the payment of labor, may be adopted by the external manager only with the consent of the meeting of creditors or the committee of creditors, with the exception of the cases provided by legislation.

The article being commented on establishes restrictions on the powers of the external manager to independently adopt decisions that lead to an increase in the debtor's expenses directed to consumption. Expenses on consumption are the monetary funds expended by an enterprise or organization in the course of its current activity to satisfy everyday needs. They include, in particular, the payment of wages to workers (payment of labor), bonuses, social payments, household and service expenses. That is, these expenses are not costs of production or investment but funds directed to ensuring consumption and current needs. Where a need arises to increase the debtor's expenses on consumption, including expenses on the payment of labor, the decision to increase such expenses is adopted by the external manager, with the exception of the cases provided by legislation, only with the consent of the meeting of creditors or the committee of creditors.

See also: International Commentary, p. 768.

Article 122. External Management Plan

The external manager, within a one-month period from the moment of his appointment by the court, must develop the external management plan, which he submits to the meeting of creditors for approval.

In considering the question of the approval of the external management plan, creditors of the first and second groups participate in the voting.

A decision of the meeting of creditors on the approval of the external management plan is deemed adopted if a majority of the number of creditors' votes in each of the first and second groups voted for it. In doing so, a creditor or creditors having the right to vote and having voted against the external management plan have the right to receive guaranteed compensation at least equal to that which they could have received in the event of the liquidation of the debtor.

Where the creditors of each of the first and second groups have not adopted a decision on the approval of the external management plan as well as where, in the voting, the necessary number of votes of the creditors of one of the groups has not been provided, a decision is adopted to apply to the court with a petition for declaring the debtor bankrupt and commencing liquidation proceedings.

A decision of the meeting of creditors on the approval of the introduction of amendments to the external management plan is adopted by the creditors of the first and second groups if a majority of the number of votes in each group separately voted for it.

The external management plan must provide for:

measures to restore the debtor's solvency, the conditions and procedure for the implementation of the said measures, the expenses on their implementation and other expenses of the debtor;

the term for the restoration of the debtor's solvency.

The debtor's solvency is recognized as restored in the absence of the signs of insolvency and (or) upon a waiver by creditors of the claims declared, established by Article 5 of this Law.

Creditors who voted against the approval of the external management plan may, in order to protect their rights, engage experts to verify:

the right to receive guaranteed compensation at least equal to that which they could have received in the event of the liquidation of the debtor, of a creditor having the right to vote and having voted against the approval of the external management plan and of a creditor not having the right to vote;

the existence of the possibility of the successful implementation of the external management plan;

the preferential right of creditors secured by the debtor's property over other creditors.

If the external management plan provides for the reduction or write-off of a claim against the debtor, this is carried out in accordance with Article 100 of this Law.

The external manager, upon the demand of the meeting of creditors or the committee of creditors, reports to the creditors on the progress of the external management procedure.

The implementation of the external management plan must not lead to the cessation of the debtor's economic activity, with the exception of cases where the obligations to satisfy monetary obligations and (or) obligations in respect of taxes and duties that arose after the commencement of the insolvency case pass to the purchaser of the debtor's property.

The article being commented on establishes the procedure for the development by the external manager of the external management plan aimed at restoring the debtor's solvency, the procedure for its approval by the meeting of creditors as well as the measures that must be provided in this plan. In addition, the provision establishes that, in the approval of the external management plan, the rights of creditors must be ensured, control over the implementation of the plan is established, and its implementation must not lead to the full cessation of the debtor's economic activity.

1. The external manager, after his appointment by the court, is obliged, within one month, to submit to the meeting of creditors the external management plan for approval. The external manager is appointed by the court simultaneously with the introduction of the external management procedure. Where it is not possible to appoint the external manager simultaneously with the introduction of the external management procedure, the court appoints the external manager within one month from the moment of introduction of the external management procedure. On the appointment of the external manager, the court issues a ruling.

2. In the adoption of a decision on the approval of the external management plan, creditors of the first and second groups must participate. Under part one of Article 13 of the Law, the first group consists of creditors in respect of the debtor's obligations secured by pledge, and the second group consists of creditors in respect of claims arising from contracts not secured by pledge, including contracts for the supply of products, the performance of works and the rendering of services as well as contracts of compulsory insurance and insurance of bank loans.

3. A decision on the approval of the external management plan is deemed adopted if a majority of the creditors of the first and second groups voted for its approval. A creditor or creditors having the right to vote and having voted against the approval of the external management plan have the right to receive compensation equal to at least the guaranteed compensation that they could have received in the event of the debtor being declared bankrupt in the future and the application of the liquidation procedure. This provision means that, if a creditor voted against the approval of the external management plan, its interests are subject to protection. That is, if, subsequently, upon the liquidation of the debtor, it could have received a certain amount of monetary funds (a guaranteed minimum amount), then, in the implementation of the external management plan, it likewise has the right to receive

compensation of no less than this amount. This rule protects the creditor from possible losses in connection with its disagreement with the plan and ensures observance of its rights.

4. If, in each of the first and second groups of creditors, a decision on the approval of the external management plan is not adopted or the necessary number of votes is not obtained, it is deemed that the meeting of creditors has adopted a decision declaring the debtor bankrupt and commencing liquidation proceedings. Under part one of Article 13 of the Law, the first group consists of creditors in respect of the debtor's obligations secured by pledge, and the second group consists of creditors in respect of claims arising from contracts not secured by pledge, contracts for the supply of products, the performance of works and the rendering of services as well as contracts of compulsory insurance and insurance of bank loans. Under part one of Article 17 of the Law, decisions of the meeting of creditors on questions put to a vote are adopted by a majority of the votes of the creditors having the right to vote and present at the meeting. It should be specially noted that the external management plan is approved where it is approved by a majority of the votes in each group of creditors. Otherwise, the debtor is declared bankrupt, and the liquidation procedure is applied with respect to it.

5. Under this provision, a decision on the question of introducing amendments to the external management plan is deemed adopted only where it is separately approved by a majority of the votes of each of the first and second groups of creditors. For example, if the creditors of the first group supported the introduction of the amendments but in the second group a majority voted against, such a decision is deemed not adopted. This procedure is aimed at ensuring a balance of the interests of creditors, precluding the granting of a preferential position to the interests of certain groups and ensuring that the amendments introduced into the external management plan are supported by all the principal creditors.

6. Part six of this article regulates which information must be reflected in the external management plan. It must provide for measures aimed at restoring the debtor's solvency, the conditions, procedure and expenses for their implementation as well as other expenses of the debtor and the term for the restoration of its solvency.

7. The debtor's solvency is deemed restored if the signs of insolvency established by Article 5 of the Law have been eliminated and (or) the creditors have waived their claims. Under Article 5 of the Law, permanent insolvency takes place where, as at the date of filing the application with the court and as at the beginning of the reporting period of the year in which the application is filed and, if the application is filed in the first quarter of the year, as at the beginning of the reporting period of the previous year, the debtor's obligations exceed the value of its assets. The elimination of this sign makes it possible to deem the debtor's solvency restored. The elimination of temporary insolvency does not mean the restoration of solvency.

8. Under this provision, creditors who opposed the approval of the external management plan have the right, in order to protect their rights and interests, to

engage independent experts to verify the lawfulness and economic justification of the external management plan. In particular, the experts assess whether the creditors are provided with compensation in an amount no lower than the guaranteed payment that they could have received in the event of the liquidation of the debtor, whether the implementation of the external management plan is real and effective as well as whether the rights of pledge creditors to the preferential satisfaction of claims in comparison with other creditors are preserved. For example, if a creditor considers that, as a result of the implementation of the external management plan, the amount of its claims may be reduced, it has the right to have an expert carry out an analysis of the economic consequences of this plan. Thus, this provision, by affording creditors the possibility of conducting an independent assessment of the external management plan, serves to reliably protect their rights.

9. If the external management plan provides for the reduction of claims against the debtor or their write-off, such actions are carried out in accordance with Article 100 of the Law. Under parts eighteen to twenty-one of Article 100 of the Law, the judicial rehabilitation plan may provide for the full or partial release of the debtor from debts or a change in the conditions of the debt obligations. The full or partial release of the debtor from debts or their change is carried out with the consent of all creditors. If any creditor objects to the full or partial release of the debtor from debts or to their change, the remaining creditors have the right to propose to it that it buy out its claim in accordance with the data of the register of creditors' claims. A creditor objecting to the full or partial release of the debtor from debts or to their change is obliged to accept the conditions proposed by the remaining creditors.

10. The external manager, upon the demand of the meeting of creditors or the committee of creditors, submits to the creditors a report on the progress of the external management procedure. Article 115 of the Law sets out the duties of the external manager, under which he is obliged to submit to the meeting of creditors reports on the progress of implementation of the external management plan and its results.

11. The implementation of the external management plan must not lead to the cessation of the debtor's economic activity. An exception is constituted by cases where the obligation to satisfy monetary obligations that arose after the commencement of the insolvency case and (or) to perform obligations to pay taxes and duties passes to the acquirer of the debtor's property. Article 126 of the Law provides for the sale of the debtor's enterprise (business) as a property complex, which is carried out in order to satisfy creditors' claims. Upon the sale of the enterprise (business) as a property complex, all the debtor's property intended for carrying out entrepreneurial activity passes to another person, including land plots, buildings, structures, equipment, inventory, raw materials, finished products, rights of claim as well as means of individualization of the debtor (firm name, trademarks, service marks), its goods, works and services as well as other exclusive rights belonging to the debtor. Upon the sale of the enterprise (business) as a property

complex, the assessment of the debtor's property is carried out by an appraisal organization whose services are paid for at the expense of the debtor's property.

See also: International Commentary, p. 768.

Article 123. Consideration of the External Management Plan

The external management plan is considered by the meeting of creditors, which is convened by the external manager no later than two months from the moment of introduction of the external management procedure. The external manager, as necessary, notifies all creditors of the date, time, and place of the holding of the meeting of creditors and ensures the possibility of familiarization with the external management plan at least two weeks before the date of the holding of the meeting.

The external manager, the representative of the founders (participants) or the owner of the debtor's property, and the representative of the debtor's workers have the right to participate in the meeting of creditors with a deliberative voice.

The external management plan is deemed approved if more than half of the number of votes of the creditors present at the meeting voted for it.

The meeting of creditors has the right to adopt one of the following decisions:

on the approval of the external management plan;

on the rejection of the external management plan and application to the court with a petition for declaring the debtor bankrupt and commencing liquidation proceedings;

on the rejection of the external management plan and application to the court with a petition for the release from the performance of duties of the external manager simultaneously with the approval of the candidacy of a new external manager. The said decision must provide for the date of convening the next meeting of creditors for the consideration of the new external management plan, and this time limit may not exceed one month from the day of adoption of this decision by the meeting of creditors.

The external management plan approved by the meeting of creditors and the minutes of the meeting of creditors are submitted to the court by the external manager no later than two days from the date of the holding of the meeting of creditors.

Where the external management plan is not submitted to the court within the time limit provided by part five of this article, the court has the right to adopt a decision declaring the debtor bankrupt and commencing liquidation proceedings.

The article being commented on establishes the procedure for the consideration of the external management plan at the meeting of creditors, its approval or rejection, the range of participants in the meeting and the rules of voting, as well as provides for the possibility of declaring the debtor bankrupt and commencing liquidation proceedings in the event of the untimely submission of the plan to the court.

1. The meeting of creditors for the consideration of the external management plan is convened by the external manager no later than two months from the moment of introduction of the external management procedure. At least two weeks before the holding of the meeting, the creditors must be provided with the possibility of familiarizing themselves with the external management plan. The external manager, as necessary, notifies all creditors of the date, time, and place of the holding of the meeting of creditors.

2. The external manager, representatives of the founders (participants) of the debtor, the owner of the debtor's property and the debtor's workers may also participate in the meeting of creditors with a deliberative voice. Under this provision, the right to participate in the meeting of creditors belongs not only to the creditors themselves but also to the external manager, the founders (participants) of the debtor, the owner of its property as well as the representatives of the workers. However, their participation is limited to a deliberative voice; that is, they may take part in discussions, express their opinion, and put forward proposals but do not have the right to vote in the adoption of decisions. Such a procedure is aimed at ensuring the priority of the interests of creditors while at the same time guaranteeing that the position of other interested parties is taken into account.

3. The external management plan is deemed approved if more than half of the creditors participating in the meeting of creditors voted for it. Under part three of Article 122 of the Law, a decision of the meeting of creditors on the approval of the external management plan is deemed adopted if a majority of the creditors of both the first and the second group voted for it. In doing so, a creditor or creditors having the right to vote and having voted against the approval of the external management plan have the right to receive compensation in an amount of no less than the guaranteed compensation that they could have received in the event of the liquidation of the debtor.

4. After the consideration of the external management plan, the meeting of creditors has the right to adopt one of the following decisions: a decision on the approval of the external management plan; a decision on the rejection of the external management plan and application to the court with a petition for declaring the debtor bankrupt and commencing liquidation proceedings; a decision on the rejection of the external management plan and application to the court with the relevant petition for the release of the external manager from the performance of his duties simultaneously with the approval of a new candidacy recommended for the position of external manager.

The decision on the rejection of the external management plan and application to the court with a petition for the release of the external manager from the performance of duties simultaneously with the approval of a new candidacy of external manager must provide for the date of convening the next meeting of creditors for the consideration of the new external management plan. In doing so, the said time limit

must not exceed one month from the day of adoption of such decision by the meeting of creditors.

5. Under this provision, the external management plan approved by the meeting of creditors as well as the minutes of the meeting must be submitted by the external manager to the court within two days. For example, if the meeting of creditors took place on 10 May and the external management plan was approved, the external manager is obliged to submit the said documents to the court no later than 12 May. This procedure is aimed at ensuring judicial control over the external management procedure, the proper formalization of the decisions adopted, and the continuation of the proceedings in the case without unjustified delays.

6. Under this provision, even if the external management plan was approved by the meeting of creditors, but the external manager did not submit it to the court within the established two-day time limit, the court has the right to regard this circumstance as evidence of the ineffectiveness of the external management procedure. This provision is aimed at ensuring the timely performance by the external manager of the duties imposed on him, preventing the artificial protraction of the proceedings in the case and protecting the interests of creditors.

See also: International Commentary, p. 768.

Article 124. Extension of the Term of External Management

In the case where the meeting of creditors has adopted a decision on the approval of the external management plan in which a term of the external management procedure exceeding that initially established is provided, the court issues a ruling on the extension of the term of the external management procedure if there are sufficient grounds to believe that the extension of the term of the external management procedure or the implementation of the approved external management plan will lead to the restoration of the debtor's solvency. In doing so, the overall term must not exceed the time limits established by Article 108 of this Law.

The article being commented on establishes the procedure for the extension of the term of external management. In legislation, there is no provision prohibiting the inclusion in the external management plan of a term exceeding the term of external management established by the court. The meeting of creditors has the right to provide in the external management plan a longer term in comparison with that which was established by the court. If a conclusion is reached that the extension of the term of external management will make it possible to implement the measures provided by the external management plan and to restore the debtor's solvency, the term of external management may be extended by the court on the basis of a petition of the meeting of creditors. However, such extension must not exceed the overall term of external management established by Article 108 of the Law, namely twenty-four months. If, before the introduction of external management, the judicial

rehabilitation procedure was applied with respect to the debtor, the aggregate term of judicial rehabilitation and external management must not exceed thirty months.

See also: International Commentary, p. 768.

Article 125. Measures to Restore the Debtor's Solvency

The external management plan may provide for the following measures to restore the debtor's solvency:

reprofiling of production;

closure of unprofitable production facilities;

recovery of receivables;

sale of part of the debtor's property;

assignment of the debtor's claims;

performance of the debtor's obligations by third persons;

placement of additional shares of the debtor;

sale of the debtor's enterprise (business) as a property complex;

borrowing of funds from commercial banks and financial institutions as well as the raising of funds from persons interested in the continuation of the debtor's activity;

a decision to increase the charter fund (charter capital) of a joint-stock company at the expense of accounts payable (conversion of debt into shares) is adopted by a majority (qualified majority) of three-quarters of the votes of the shareholders, the holders of voting shares, present at the general meeting of shareholders;

substitution of the debtor's assets.

The external management plan may also provide for other measures to restore the debtor's solvency.

In addition to the measures provided by part one of this article, upon the proposal of the authorized state body, the court may issue a ruling on the conservation of the non-operating facilities of a debtor in whose charter fund (charter capital) the state holds a share.

The article being commented on establishes that, within the framework of the external management plan, such measures as the reorganization of production, the sale of property, the recovery of receivables, the raising of investment and borrowed funds, the exchange of debt for shares as well as other economic and organizational measures may be applied to restore the debtor's solvency.

1. Under this provision, the external management plan may provide for various economic, organizational and financial measures aimed at restoring the debtor's solvency and the recovery of its financial position. In particular, such measures as the closure of loss-making lines of activity, the reprofiling of production in accordance with the requirements of the market, the recovery of receivables or the raising of additional funds at the expense of the sale of part of the debtor's property may be applied. For example, an enterprise may close an unprofitable shop and, at the expense of the sale of its equipment, partially repay the debt owed to creditors.

In addition, the possibility of restoring the financial stability of the enterprise may be ensured by means of the issuance of additional shares, the raising of bank loans or investments as well as the exchange of debt for shares. This provision establishes legal mechanisms aimed at preserving the debtor's activity in the course of the external management procedure without its liquidation and at the maximum possible satisfaction of creditors' claims.

2. Under this provision, the measures listed in the law are not the only means that may be applied in the external management plan. To restore the debtor's solvency, other effective economic or organizational measures may also be provided. For example, the external management plan may include such measures as the reform of the enterprise management system, the raising of a new investor, the revision of lease conditions or the optimization of expenses. This provision affords the external manager and the creditors the possibility of applying the most expedient and effective mechanisms for restoring solvency, taking into account the debtor's financial condition.

3. The court, upon the proposal of the authorized state body, may issue a ruling on the conservation of the non-operating facilities of a debtor in whose charter fund the state holds a share. The conservation of non-operating facilities constitutes a set of organizational and technical measures aimed at preserving the production buildings, equipment, and other assets of an enterprise or organization that are temporarily not in use, protecting them from destruction and ensuring the possibility of their further use in the future. That is, in this case, the facility is not fully closed and is not liquidated but is transferred to a special "conservation" regime: the equipment is cleaned, its preservation is ensured, and the engineering networks and communications are brought to a safe condition.

See also: International Commentary, p. 768.

Article 126. Sale of the Debtor's Enterprise (Business) as a Property Complex

In order to satisfy creditors' claims, the external management plan may provide for the sale of the debtor's enterprise (business) as a property complex.

Upon the sale of the enterprise (business) as a property complex, all types of property intended for carrying out the debtor's entrepreneurial activity are alienated, including land plots, buildings, structures, equipment, inventory, raw materials, products, rights of claim as well as the means individualizing the debtor (firm name, trademarks, service marks), its goods, works and services, other exclusive rights belonging to the debtor, with the exception of rights and obligations that may not be transferred to other persons.

Upon the sale of the enterprise (business) as a property complex, the assessment of the debtor's property is carried out by an appraisal organization, with payment for its services at the expense of the debtor's property. The

appraisal organization is approved by the meeting of creditors or the committee of creditors.

If the funds on the debtor's account are insufficient for the assessment of its property, the external manager must notify the creditors thereof. In this case, the expenses on the assessment of the debtor's property are borne by the creditors, and these expenses are compensated out of priority in the manner provided by part one of Article 150 of the Law, at the expense of the funds received on the debtor's account as a result of the sale of the debtor's property.

Where necessary, the persons participating in the insolvency case may demand the conduct of an examination of the validity of the report on the assessment of the debtor's property.

With the consent of the meeting of creditors, the external manager has the right to sell the enterprise (business) as a property complex by installments for a term of no more than one year, on condition that the purchaser furnishes the corresponding guarantees of the servicing bank.

Upon the sale of the enterprise (business) as a property complex, the employment contracts in effect at the moment of sale of the enterprise (business) as a property complex retain their force, and the rights and obligations of the employer pass to the purchaser of the enterprise (business) as a property complex.

The sale of the enterprise (business) as a property complex is carried out by means of an electronic online auction, unless otherwise provided by this article. The conditions for conducting the bidding in the form of an electronic online auction are determined by the meeting of creditors or the committee of creditors.

Where the enterprise (business) as a property complex includes property classified as property of limited transferability, the sale of the enterprise (business) as a property complex is carried out by means of conducting closed bidding in the form of an electronic online auction with the participation of persons who, in accordance with law, may hold the said property by right of ownership or other property right.

The initial sale price of the enterprise (business) as a property complex put up for bidding in the form of an electronic online auction is established by a decision of the meeting of creditors or the committee of creditors, taking into account the assessment of the enterprise's property carried out by the appraisal organization, unless otherwise provided by legislation.

The conditions for conducting the bidding in the form of an electronic online auction must provide for the receipt by the debtor of the monetary funds from the sale of the enterprise (business) as a property complex no later than thirty days before the expiry of the term of the external management procedure.

The external manager engages a specialized organization to organize the bidding in the form of an electronic online auction and pays for its services at the expense of the debtor's property. The specialized organization conducting the bidding in the form of an electronic online auction may not be an interested party for the debtor and the external manager and must be agreed with the meeting of creditors or the committee of creditors.

The specialized organization:

publishes on the official website an announcement on the sale of the enterprise (business) as a property complex by bidding in the form of an electronic online auction;

accepts electronic applications to participate in the auction from the participants in the bidding in the form of an electronic online auction;

ensures openness and transparency in the organization of the bidding in the form of an electronic online auction;

determines the winner of the auction and draws up the minutes on the results of the bidding.

The announcement on the sale of the enterprise (business) as a property complex by bidding in the form of an electronic online auction must be given in the mass media no later than thirty days before the date of the holding of the bidding. The announcement on the sale of the enterprise (business) as a property complex by bidding in the form of an electronic online auction must indicate:

information on the enterprise (business) as a property complex and the procedure for familiarization with it;

the time limits and time for participation in the bidding in the form of an electronic online auction and the website of the organizer of the bidding;

the initial sale price of the enterprise (business) as a property complex;

the time of the holding and summing up of the results of the bidding in the form of an electronic online auction and the website of the organizer of the auction;

the conditions and time limits for the conclusion of the contract of sale and payments.

The announcement on the sale of the enterprise (business) as a property complex by bidding in the form of an electronic online auction may also contain other information in accordance with legislation.

If, within the time limit indicated in the announcement on the sale of the enterprise (business) as a property complex by bidding in the form of an electronic online auction, not a single application has been received or an application has been received from one participant, the bidding is declared not to have taken place, and, on the conditions provided by parts ten to thirteen of this article, repeat bidding in the form of an electronic online auction is conducted. Repeat bidding in the form of an electronic online auction is also conducted in cases where, at the first bidding of the electronic online auction, the enterprise (business) as a property complex was not sold.

In order to conduct repeat bidding in the form of an electronic online auction, the external manager, within fifteen days from the date of the bidding declared not to have taken place or at which the enterprise (business) as a property complex was not sold, in accordance with a decision of the meeting of creditors or the committee of creditors, publishes a new announcement on the sale of the enterprise (business) as a property complex in the manner provided by this article and Article 54 of this Law. In doing so, the bidding in the form of an electronic online auction is conducted within a term of no less than fifteen days from the date of publication of the announcement. The sale price of the enterprise (business) as a property complex may be reduced in stages by a decision of the meeting of creditors or the committee of creditors. In doing so

the amount of the reduction must not exceed ten percent of the price of the previous bidding. If the enterprise (business) sold as a property complex is not sold with a reduction down to twenty percent of the initial price of the first sale, the starting price of the next repeat bidding may be determined in agreement with the meeting of creditors. In doing so, the amount of the reduction must not exceed fifty percent of the initial price of the first sale.

The contract of sale of the enterprise (business) as a property complex is concluded between the winner of the auction bidding in the form of an electronic online auction and the external manager no later than ten days from the day of announcement of the results of the bidding. The person who has won the bidding in the form of an electronic online auction and the organizer of the bidding, on the day of the holding of the bidding, draw up the minutes on the results of the bidding, which have the force of a contract. The person who has won the bidding, upon evading the signing of the minutes of the results of the bidding or of the contract of sale, loses the deposit made by it. The amount of the deposit in this case is included in the composition of the debtor's assets, less the costs of the organizers of the bidding in the form of an electronic online auction in conducting it.

Where the enterprise (business) was not sold as a property complex on the conditions provided by part fourteen of this article, the external manager, by a decision of the meeting of creditors, unless otherwise provided by this Law, may put the enterprise (business) as a property complex up for public offer and conclude, no earlier than fifteen days after the publication of the proposal on the public offer in a mass medium, a contract of sale of the enterprise (business) as a property complex with the person who has proposed the highest price for it.

A decision to put up for public offer is deemed adopted if two-thirds of the creditors voted for it, and in doing so the initial sale price of the enterprise (business) as a property complex proposed for the offer must not be lower than the initial price established at the previous bidding in the form of an electronic online auction.

In cases where, at the expense of the sum realized from the sale of the enterprise (business) as a property complex, the debtor has the possibility of satisfying creditors' claims in full, the insolvency proceedings are subject to termination by the court upon an application of the external manager.

If the sum realized from the sale of the enterprise (business) as a property complex is insufficient for the satisfaction of creditors' claims in full, the external manager proposes to the creditors that they conclude a settlement agreement. Where a settlement agreement is not reached, the court, upon an application of the external manager, adopts a decision declaring the debtor bankrupt and commencing liquidation proceedings.

The funds realized from the sale of the enterprise (business) as a property complex are subject to distribution in the order of priority provided by Articles 149, 150 and 185 of this Law.

The article being commented on establishes the procedure, conditions and legal consequences of the sale of the debtor's enterprise (business) as a property complex

in the insolvency process. Under this provision, in order to satisfy creditors' claims, all assets of the enterprise (property, rights, brands and other objects) may be realized as a single property complex, predominantly by means of an electronic online auction. In doing so, the law strictly regulates the procedure for the assessment of property, the organization of the bidding, the engagement of participants and the requirements for the transparency of the procedure.

1. Part one of the article being commented on emphasizes that, in order to restore the debtor's solvency or satisfy creditors' claims, the debtor's enterprise (business) may be sold as a single property complex. In doing so, the sale of the production activity and assets of the debtor in the aggregate (for example, buildings, equipment, the client base) to raise financial resources is contemplated. Under part one of Article 125 of the Law, the external management plan may provide for the sale of the debtor's enterprise (business) as a property complex in order to restore its solvency. In accordance with Article 85 of the CC, an enterprise as a single property complex is classified as immovable property. An enterprise as a whole or part of it may be the object of transactions of sale, pledge, lease, as well as other transactions relating to the establishment, change, or termination of property rights.

The sale of property in this manner makes it possible for the debtor to obtain funds to repay the debt or improve its financial position, that is, to form the necessary financial resources.

2. Under part two of the article being commented on, upon the sale of the enterprise (business) as a property complex, all types of the debtor's property intended for carrying out entrepreneurial activity are transferred to another person, including land plots, buildings, structures, equipment, inventory, raw materials, finished products, rights of claim as well as the means of individualization of the debtor (firm name, trademarks, service marks), its goods, works and services as well as other exclusive rights belonging to the debtor. However, certain rights and obligations are not subject to transfer. Thus, under Article 314 of the CC, the passing to another person of rights inseparably linked with the person of the creditor, in particular claims for the recovery of alimony and claims for compensation of harm caused to life or health, is not permitted.

3. Part three of the article being commented on establishes the necessity of engaging an appraisal organization upon the sale of the enterprise (business) as a property complex. The appraisal organization determines the market value of the enterprise's property. Under Article 7 of the Law of the Republic of Uzbekistan "On Appraisal Activity," the market value of the object of appraisal is understood to mean the most probable price at which this object may be alienated on the open market in conditions of competition, where the parties to the transaction possess all the necessary information, act reasonably and voluntarily in their interests and the amount of the price is not affected by any extraordinary circumstances, including the obligation of one of the parties to conclude the transaction. The remuneration of the

appraisal organization is paid at the expense of the debtor's property. The appraisal organization is approved by the meeting of creditors or the committee of creditors.

4. If sufficient monetary funds for the conduct of the assessment of its property are absent from the debtor's account, the external manager is obliged to notify the creditors thereof. In such a situation, the expenses on the assessment of the property are covered by the creditors. The said expenses are compensated at the expense of the monetary funds received on the debtor's account from the sale of the property of the debtor enterprise, out of priority, in the manner provided by part one of Article 150 of the Law. Claims in respect of current payment obligations that arose after the commencement of the debtor's insolvency case are satisfied out of priority.

5. If doubts arise as to the reliability of the report on the assessment of the debtor's property, the persons participating in the case have the right to demand the conduct of an examination to verify the reliability of the report of the appraisal organization. Under Article 38 of the Law, the persons participating in the insolvency case include: the debtor; the judicial manager; creditors (from the moment of presentation by them of claims against the debtor in the manner established by the Law); the authorized state body; persons who have furnished security for the debtor's obligations.

6. The external manager, with the consent of the meeting of creditors, has the right to realize (sell) the enterprise as a property complex on the conditions of payment by installments for a term of no more than one year. Such realization is carried out under the bank guarantee of the bank servicing the purchaser. Under Article 299 of the CC, under a guarantee, a bank, other credit institution or insurance organization (guarantor), upon the request of another person (principal), assumes a written obligation to pay the principal's creditor (beneficiary) a sum of money in accordance with the conditions of the obligation assumed by the guarantor, if the beneficiary presents a written demand for its payment.

7. Upon the sale of the enterprise, all employment contracts in effect retain their force. This is necessary to protect the rights of workers and prevent their unlawful dismissal. In doing so, the rights and obligations of the employer pass to the person who has acquired the enterprise.

8. If the enterprise is sold as a property complex, such sale is carried out in the form of an electronic online auction. The conditions for conducting the auction are determined by the meeting of creditors or the committee of creditors, that is, it is precisely they who establish the procedure for conducting the bidding.

Under paragraph 2 of the Regulation on the Procedure for Organizing and Conducting Electronic Online Auctions and Competitions on the "E-auksion" Electronic Trading Platform, approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 18 of 12 January 2022, the "E-auksion" electronic trading platform constitutes an information system ensuring the input, storage and processing of the information necessary for the organization and conduct of electronic online auctions and competitions as well as affording interested physical

persons and legal persons the possibility of access to such auctions and competitions and participation in them.

The Regulation on the Procedure for Organizing and Conducting Electronic Online Auctions and Competitions on the "E-auksion" Electronic Trading Platform includes:

the procedure for the publication of the announcement on the conduct of an electronic online auction, its conduct, its declaration as not having taken place, the conduct of a repeat auction, the carrying out of settlements based on the results of the auction and the formalization of its results;

the specifics of the procedure for the realization on the "E-auksion" electronic trading platform of attached property in order to execute judicial acts and documents of other bodies as well as the right to use subsoil plots;

the procedure for the publication of the announcement on the conduct of an electronic competition, its conduct, its declaration as not having taken place, the conduct of a repeat competition, the formalization of the results of the competition and the carrying out of settlements;

the procedure and time limits for the withdrawal of a lot from the electronic online auction (competition).

Where the enterprise (business) was not realized as a property complex on the conditions provided by part fourteen of this article, the external manager, unless otherwise provided by the Law, on the basis of a decision of the meeting of creditors, has the right to put the enterprise (business) as a property complex up for bidding by means of a public offer and, after the expiry of no less than fifteen days from the day of publication of the proposal on the public offer in the mass media, to conclude a contract of sale of the enterprise (business) with the person who has proposed the highest price for it.

9. If the enterprise (business) includes property the transferability of which is limited, the sale of the enterprise (business) as a property complex is carried out by means of conducting closed electronic online auctions with the participation of persons who, in accordance with legislation, may hold the right of ownership or other property right in such property. Only persons having the corresponding right thereto may participate in closed bidding. In conducting a closed auction or competition, the customer indicates in advance in the application information on the admitted legal persons and physical persons (their list, personal data, place of location and other information). The operator does not bear liability for the fact that the invited persons did not register in the established manner or did not familiarize themselves with the information on the conduct of the closed auction or competition.

Under part one of Article 82 of the CC, objects of civil rights may freely pass from one person to another in the manner of universal succession (inheritance, reorganization of a legal person) or in another manner, if they are not withdrawn from turnover or their turnover is not limited by law.

10. The initial price of the enterprise (business) put up for the electronic online auction is determined by a decision of the meeting of creditors or the committee of creditors, taking into account the results of the assessment of the enterprise's property carried out by the appraisal organization. Under paragraph 2 of the Regulation on the Procedure for Organizing and Conducting Electronic Online Auctions and Competitions on the "E-auksion" Electronic Trading Platform, approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 18 of 12 January 2022, the initial price is the price established by the customer in putting the object of the auction or competition up for bidding or determined in the manner provided by the said Regulation.

In accordance with Article 17 of the Law of the Republic of Uzbekistan "On Appraisal Activity," the results of the assessment of the object are formalized by a report on the assessment. Each page of the report is signed by the appraiser (appraisers) who carried out the assessment of the object. The report is certified by the signature of the manager of the appraisal organization and the seal of that organization (where there is a seal) and is handed over to the customer. The value of the object of appraisal indicated in the report is of a recommendatory nature.

11. Part eleven of this article establishes that the conditions for conducting the bidding must indicate a rule on the time limit for the transfer of the monetary funds realized from the sale of the enterprise. The conditions for conducting the electronic online auction must provide that the monetary funds received from the sale of the enterprise (business) as a property complex must be received by the debtor no less than thirty days before the end of the term of the external management procedure. Under point 8 of the Regulation on the Procedure for Organizing and Conducting Electronic Online Auctions and Competitions on the "E-auksion" Electronic Trading Platform, approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 18 of 12 January 2022, a set of rules for interaction in the organization and conduct of the auction or competition may be signed between the customer and the operator on the basis of the requirements of this Regulation. In doing so, customers, with the exception of customers putting up for bidding property belonging to the state, land plots and rights thereto, may conclude with the operator a contract for the conduct of an auction or competition for the sale (transfer for lease) of property belonging to them or of rights thereto on conditions agreed by the parties. Under point 47 of the said Regulation, an electronic protocol recognized as the result of an auction or competition has the force of a contract of sale and is a ground for the state registration of property and property rights as well as for the conclusion of a contract of sale (lease). In accordance with point 48 of this Regulation, the monetary funds resulting from the auction are accumulated on a special account of the operator and, after confirmation of acceptance of the object by the winner of the auction (purchaser), are transferred to the bank account of the customer, less the remuneration of the operator.

12. The external manager has the right to engage specialized organizations to organize the sale of property. Such organizations bear responsibility for conducting the bidding at a high professional level and in compliance with the established requirements. Their activity must be of a good-faith nature, that is, they must not be interested parties and must not have interests contravening the interests of the debtor or relating to the property being realized. The creditors or the committee of creditors perform an approving function in the selection of such an organization. Under paragraph 2 of the Regulation on the Procedure for Organizing and Conducting Electronic Online Auctions and Competitions on the "E-auksion" Electronic Trading Platform, approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 18 of 12 January 2022, the operator is the joint-stock company "Organization of Electronic Online Auctions," which has been granted the powers to organize and conduct auctions and competitions on the trading platform. Payment for the services of specialized organizations engaged to organize the sale of property is carried out at the expense of the debtor. Under Article 21 of the Law, interested parties with respect to the debtor-legal person, are: a legal person that is principal or dependent with respect to the debtor in accordance with legislation; the debtor's manager as well as persons forming part of the supervisory board, the collegial executive body, the chief accountant (accountant), including in cases where the employment contract with them was terminated within one year before the commencement of the insolvency case; the founders (participants) of the legal person or the owner of the debtor's property. By interested parties with respect to a physical person as well as with respect to the individual entrepreneur debtor, the Law understands his spouse, relatives in the direct ascending and descending line, full brothers and sisters as well as their descendants in the direct line, the parents of the spouse, his brothers and sisters.

13. Part thirteen of this article clearly defines the functions and responsibilities of the specialized organization. It bears responsibility for the accurate and transparent organization of the electronic online auction. In addition, such organization: publishes on its official website an announcement on the conduct of the bidding in the form of an electronic online auction; accepts from participants electronic applications to participate in the electronic online auction; ensures openness and transparency in the organization of the electronic online auction; determines the winner of the bidding and draws up the minutes on the results of the bidding. Under paragraph 47 of the Regulation on the Procedure for Organizing and Conducting Electronic Online Auctions and Competitions on the "E-auksion" Electronic Trading Platform, approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 18 of 12 January 2022, the electronic protocol formed by the operator and recognized as the result of an auction or competition has the force of a contract of sale and is a ground for the state registration of property and property rights as well as for the conclusion of a contract of sale (lease).

14. Before the sale of the enterprise (business) as a property complex by bidding in the form of an electronic online auction, the corresponding announcement must be published in the mass media no later than thirty days before the conduct of the bidding. The announcement on the sale of the enterprise (business) as a property complex by means of an electronic online auction must indicate: information on the enterprise (business) sold as a property complex as well as the procedure for familiarization with it; the time limits for participation in the electronic online auction, the time of its conduct and the website of the organizer of the bidding; the initial sale price of the enterprise (business) as a property complex; the date and time of the conduct of the electronic online auction, the procedure for summing up its results as well as the website of the organizer of the bidding; the conditions and time limits for the conclusion of the contract of sale and the carrying out of settlements.

15. Under this provision, the announcement on the sale of the enterprise (business) as a property complex by means of an electronic online auction may indicate not only the mandatory information provided by law but also other additional information necessary to ensure the transparency of the bidding and the proper awareness of participants. For example, the announcement may contain information on the financial condition of the enterprise, the composition of its assets, production capacities, contracts in effect, or other information of substantial significance for potential investors. This provision is aimed at providing the participants in the bidding with more complete information on the enterprise, strengthening competition and ensuring the openness of the process of realization of the property.

16. If, within the time limit indicated in the announcement on the sale of the enterprise (business) as a property complex by means of an electronic online auction, not a single application has been received or an application has been received from only one participant, the auction is declared not to have taken place. After this, repeat bidding is conducted.

17. In order to conduct a repeat electronic online auction, the external manager, in accordance with a decision of the meeting of creditors or the committee of creditors, is obliged, within fifteen days from the day of the conduct of the electronic online auction that did not take place or from the day of the auction at which the enterprise (business) as a property complex was not realized, to publish a new announcement on the sale of the enterprise (business) as a property complex in the manner provided by this article and Article 54 of the Law.

In doing so, the electronic online auction is conducted no earlier than upon the expiry of fifteen days from the day of publication of the corresponding announcement.

The sale price of the enterprise (business) as a property complex may, by a decision of the meeting of creditors or the committee of creditors, be reduced in stages, however the amount of each reduction must not exceed ten percent of the price established at the previous bidding.

If the enterprise (business) sold as a property complex was not realized at a price reduced down to twenty percent of the initial starting price of the first bidding, the initial price of the subsequent repeat bidding may be determined in agreement with the meeting of creditors. In doing so, the amount of the reduction must not exceed fifty percent of the initial starting price of the first bidding.

18. The contract of sale of the enterprise (business) realized as a property complex is concluded between the winner of the electronic online bidding and the external manager no later than ten days from the day of announcement of the results of the auction in the form of electronic online bidding.

The person recognized as the winner of the electronic online auction and the organizer of the bidding, on the day of the conduct of the auction, draw up the minutes on the results of the bidding. These minutes have the force of a contract.

In the event that the winner of the electronic online auction refuses to sign the minutes of the auction or the contract of sale, it loses the right to the deposit made by it.

The amount of the deposit, less the costs of the organizers of the electronic online auction in conducting the bidding, is included in the composition of the debtor's assets.

19. Where the enterprise (business) was not sold as a property complex on the conditions provided by part fourteen of this article, the external manager, unless otherwise provided by the Law, by a decision of the meeting of creditors, has the right to put the enterprise (business) as a property complex up for sale by means of a public offer and, after the publication in the mass media of the proposal on the public offer, no earlier than fifteen days later, to conclude a contract of sale of the enterprise (business) with the person who has proposed the highest price for it.

20. A decision to put up for sale by means of a public offer is deemed adopted if two-thirds of the creditors voted for it. In doing so, the initial sale price of the enterprise (business) as a property complex by public offer must not be lower than the initial price established at the previous bidding in the form of an electronic online auction.

21. In the event that, at the expense of the sum received from the sale of the enterprise (business) as a property complex, there is a possibility of fully satisfying the claims of the debtor's creditors, the insolvency proceedings are subject to termination by the court upon an application of the external manager. In accordance with part one of Article 57 of the Law, the court terminates the insolvency proceedings in the course of the external management procedure if the debtor's solvency has been restored.

22. If the funds received from the sale of the enterprise (business) are insufficient for the satisfaction of all creditors' claims, the external manager proposes the conclusion of a settlement agreement to settle further payments and claims. In the event that a settlement agreement is not reached, the court, upon an application of

the external manager, declares the debtor bankrupt and introduces the liquidation proceedings.

23. The procedure for the distribution of the funds received from the sale of the enterprise (business) is established by legislation. In accordance with the relevant provisions of the Law (Articles 149, 150 and 185), claims are satisfied in the order of priority.

See also: International Commentary, p. 769.

Article 127. Sale of Part of the Debtor's Property

After the conduct of the inventory and assessment of the debtor's property, part of the property may be sold in accordance with the external management plan.

Part of the property is sold by bidding in the form of an electronic online auction, unless otherwise provided by this article.

The sale of part of the debtor's property must not lead to the impossibility of the debtor carrying out its economic activity.

The debtor's property classified as of limited transferability is realized by means of conducting closed auction bidding in the form of an electronic online auction with the participation of persons who, in accordance with law, may hold the said property by right of ownership or other property right.

The initial sale price of part of the debtor's property put up for bidding in the form of an electronic online auction is established by a decision of the meeting of creditors or the committee of creditors, taking into account the assessment of the debtor's property carried out by the appraisal organization, unless otherwise provided by legislation.

Bidding in the form of an electronic online auction for the sale of part of the debtor's property is conducted in the manner provided by Article 126 of this Law.

With the consent of the meeting of creditors, the external manager has the right to realize part of the debtor's property by installments for a term of no more than one year, on condition that the purchaser furnishes the corresponding guarantees of the servicing bank.

In the course of the external management procedure, the external manager, with the consent of the meeting of creditors, has the right to sell low-value and fast-wearing property as well as the remainders of the debtor's raw materials and finished products without conducting bidding in the form of an electronic online auction, directly on the basis of contracts of sale.

The funds realized from the sale of part of the debtor's property are distributed in the order of priority provided by Articles 149, 150 and 185 of this Law.

The commented article sets forth the grounds and procedure for the sale of part of the debtor's property, following its appraisal, through an electronic auction in accordance with the external management plan. At the same time, such a sale must

not result in the cessation of the debtor's activity. In individual cases, the property may be sold under a special procedure or without holding an auction. The funds received from the sale of property are directed toward satisfying the claims of creditors in the order of priority established by legislation.

1. After the inventory and appraisal of the debtor's property have been carried out, the external manager has the right to sell it. Pursuant to paragraph 3 of the National Accounting Standard of the Republic of Uzbekistan (NAS No. 19) "Organization and Conduct of Inventory," approved by Order of the Minister of Economy and Finance of the Republic of Uzbekistan No. 141 of 14 June 2024, the principal objectives of an inventory are: determining the actual presence of property; comparing the actual presence of property with accounting records; verifying the correctness of the reflection of obligations in accounting records.

All assets and liabilities of the organization are subject to inventory regardless of their location. This process is carried out in accordance with the external management plan, meaning that all decisions and actions connected with the sale of property and the distribution of funds are carried out on the basis of a specially developed plan. The inventory and appraisal require an analysis of the actual condition of the property, its value, as well as the factors affecting the procedure for its distribution. If part of the property is subject to sale, such a decision must be aimed at discharging the debtor's indebtedness to the creditors.

2. Part two of this article establishes the procedure for the sale of part of the debtor's property. Unless otherwise provided by legislation, part of the debtor's property is sold through an electronic online auction. In accordance with the provisions of the Regulation on the Procedure for Organizing and Conducting Electronic Online Auctions and Tenders on the "E-auksion" Electronic Trading Platform, approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 18 of 12 January 2022, part of the debtor's property is subject to sale at auction.

3. The sale of the debtor's property must not cause harm to its activity. If the property is necessary for carrying out the debtor's entrepreneurial activity—for example, if it constitutes important equipment or facilities used in the production process—such property is not subject to sale. This requirement is aimed at preventing obstacles to the debtor's economic activity and at preserving the possibility of its continued conduct of business.

4. Property whose circulation is restricted in civil commerce is sold in accordance with special rules. The sale of such property is carried out only with the participation of persons who, in accordance with legislation, have the right to own or acquire such property. In addition, its sale is conducted through closed bidding (that is, an auction in which only predetermined persons may participate). When conducting a closed auction or tender, the customer indicates in advance in the application the information on the admitted legal and physical persons (their list, personal data, place of residence or location and other information). The operator is not liable for the fact

that persons invited to participate in a closed auction or tender failed to complete registration in the established procedure or failed to familiarize themselves with the information relating to the conduct of the closed auction or tender.

5. The starting price of the property is determined on the basis of the results of the appraisal conducted by an appraisal organization. Unless a different procedure is established by legislation, the starting price of property at auction is determined on the basis of its market value and the report of the appraisal organization. Pursuant to paragraph 2 of the Regulation on the Procedure for Organizing and Conducting Electronic Online Auctions and Tenders on the "E-auksion" Electronic Trading Platform, approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 18 of 12 January 2022, the starting price is the price established by the customer when placing the auction or tender object up for bidding, or determined in the procedure provided for by this Regulation.

6. Bidding in the form of an electronic online auction is conducted in accordance with the norms established by legislation. Article 126 of the Law provides for the procedure for conducting the auction, including the requirements for participants, the procedure for conducting the bidding and the conditions of its conduct.

7. The purchaser has the right to acquire property on installment-payment terms, provided that it furnishes a guarantee from the bank servicing it. Such terms are subject to approval by the meeting of creditors and must provide for the procedure for acquiring the property, as well as the stages and time limits for making payments. At the same time, the installment period may not exceed one year.

8. In the course of the external management procedure, the external manager, with the consent of the meeting of creditors, has the right, without holding a bidding in the form of an electronic online auction, to carry out the direct sale of the debtor's low-value and quickly wearing property, as well as remnants of raw materials and finished products, on the basis of sale-and-purchase contracts.

9. The funds received from the sale of part of the debtor's property are distributed in the order of priority established by legislation. Articles 149, 150 and 185 of the Law contain norms that determine to which creditors, in what order and in what amount the funds realized from the sale of the debtor's property are paid.

See also: International Commentary, p. 769.

Article 128. Assignment of the Debtor's Rights of Claim

Assignment of the debtor's rights of claim may be carried out by the external manager by selling the right of claim at bidding in the form of an electronic online auction with the consent of the meeting of creditors or the committee of creditors, unless otherwise provided by the external management plan.

If the external management plan provides for the possibility of selling the debtor's rights of claim to a specific purchaser without holding bidding in the form of an electronic online auction, or if the rights of claim were not sold at bidding in the form of an electronic online auction, the meeting

of creditors or the committee of creditors determines the sale price of the rights of claim and other terms of such sale.

The commented article establishes the procedure for the sale of the debtor's rights of claim, that is, the funds or other rights that the debtor has the right to demand from its debtors or other persons.

1. Unless otherwise provided by the external management plan, the debtor's rights of claim are subject to sale by the external manager through auction with the consent of the meeting of creditors or the committee of creditors. Assignment of rights of claim in favor of another person is understood to mean the sale of such rights of claim. Pursuant to Article 313 of the CC, a right (claim) belonging to a creditor on the basis of an obligation may be transferred by it to another person by transaction (assignment of claim) or may pass to another person on the basis of law. For the rights of the creditor to pass to another person, the consent of the debtor is not required, unless a different procedure is provided by law or contract.

2. Part two of this Article provides for the possibility of selling the debtor's rights of claim not through an auction, but directly to a specific purchaser. If such terms are provided by the external management plan—that is, the rights of claim are subject to sale not through an auction but directly to a specific person—holding an auction is not required. However, the price of such a sale and its terms are determined on the basis of decisions of the meeting of creditors or the committee of creditors. Creditors are authorized to establish the specific price and terms of sale of the rights of claim. In addition, if the right of claim was not sold through an auction, other terms of such a sale (for example, payment time limits, the payment procedure and other terms) must likewise be determined by the creditors.

Article 129. Performance of the Debtor's Obligations by the Owner of the Debtor's Property or by a Third Party

The founders (participants) or the owner of the debtor's property have the right, at any time before the end of the external management procedure, to carry out the simultaneous satisfaction of the claims of all creditors in accordance with the register of creditors' claims.

Performance of the monetary obligations and (or) obligations with respect to taxes and duties of the debtor by a third party (third parties) is permitted on the condition that such performance simultaneously discharges the claims of all creditors in accordance with the register of creditors' claims.

In the event of the impossibility of discharging the claims of creditors in accordance with parts one and two of this article on account of a creditor's breach of the duty to provide information about itself necessary for carrying out settlements with that creditor, as well as a creditor's evasion of accepting performance in another manner, the

funds may be deposited with a notary or the court at the location (place of residence) of the debtor.

The commented article establishes the procedure for the performance of the debtor's obligations by the founders (participants) of the debtor, the owner of its property, or third parties.

1. Part one of this article provides that the founders (participants) of the debtor, the owner of the debtor's property or third parties have the right, at any time before the completion of the external management procedure, to satisfy at once the claims of all creditors in accordance with the register of creditors' claims. Pursuant to Article 243 of the CC, if it is provided by legislation or contract or follows from the essence of the obligation, the customs of business dealings or other usually imposed requirements, the debtor has the right to perform the obligation ahead of time, and the creditor is obligated to accept such early performance. In accordance with part two of Article 244 of the CC, where there are sufficient grounds, the court has the right to grant the debtor a deferral of performance of the obligation or to permit its performance in parts.

2. Part two provides that the monetary obligations of the debtor and (or) its obligations to pay taxes and duties may be performed by a third party (third parties) on the condition that such performance ensures the simultaneous satisfaction of the claims of all creditors in accordance with the register of creditors' claims. Consequently, performance of the obligations is permitted on the condition of their simultaneous (full) discharge. Pursuant to part two of Article 241 of the CC, if the duty of the debtor to perform the obligation personally does not follow from legislation, the contract or the essence of the obligation, the creditor is obligated to accept the performance offered for the debtor by a third party.

3. In accordance with part three of this article, if the creditor does not provide the necessary information about itself, obstructs the carrying out of settlements or otherwise evades accepting performance, the Law affords the founders (participants) of the debtor, the owner of its property or third parties an additional opportunity to perform the debtor's obligations. In such a case, the funds are deposited with a notary or the court at the location of the debtor (its place of residence).

Article 130. Placement of Additional Shares of the Debtor

For the purpose of restoring the debtor's solvency, the external management plan may provide for the possibility of placing additional shares of the debtor that is a joint-stock company. The possibility of increasing the charter fund (charter capital) by placing additional shares may be included in the external management plan exclusively upon the petition of the general meeting of shareholders of the debtor that adopted the necessary decision, submitted to the external manager no later than six months before the date of the end of the external management procedure.

The decision to increase the charter fund (charter capital) by issuing additional shares of the debtor that is a joint-stock company is adopted by the meeting of creditors. If, in resolving the question of increasing the charter fund (charter capital) by placing additional shares of the debtor, it is necessary to introduce amendments and additions regarding an increase in the number of authorized shares established by the debtor's charter, then the adoption of a decision to increase the charter fund (charter capital) is possible only after the introduction of amendments and additions to the debtor's charter in the procedure provided by legislation.

Additional shares of the debtor may be placed exclusively by open subscription with their payment only in monetary funds. The shareholders of the debtor have a preemptive right to acquire the placed shares of the debtor in a quantity proportional to the number of shares of the joint-stock company belonging to them, and at the price determined in accordance with part four of this article.

Additional shares are placed among shareholders at a price not lower than the nominal value of the placed shares, provided that the sale of all placed shares at this price will lead to the accumulation of funds sufficient for the full discharge of the claims of all creditors. The price of placing shares among shareholders is determined by the debtor's external manager and approved by the meeting of creditors. The period afforded to the shareholders of the debtor for exercising the preemptive right to acquire additional shares of the debtor is determined by the meeting of creditors, but may not be less than thirty days from the date of the start of the placement of shares.

Additional shares not placed among the shareholders of the debtor are sold by the external manager at the bidding of the stock exchange. In the event of a decision to recognize the debtor as bankrupt and to commence liquidation proceedings, persons who were not previously shareholders of the debtor and who acquired shares of the debtor of the new issue have the right to declare their claims against the debtor in the amount of the acquired shares in the procedure provided by legislation.

According to the commented article, in the course of the external management procedure, for the purpose of restoring the debtor's solvency—a joint-stock company—an increase in the charter capital by issuing and placing additional shares is permitted. This is carried out on the basis of the petition of the general meeting of shareholders and the decision of the meeting of creditors. The article also provides that the shares are placed primarily by means of monetary funds through open subscription, the shareholders are afforded a preemptive right to acquire the shares, the price is determined by the external manager and approved by the creditors, and the unplaced shares are sold on the exchange.

1. Part one of this article states that, for the purpose of restoring the debtor's solvency and improving its financial condition, if the debtor is a joint-stock company, additional shares may be placed. Initially, the decision to increase the charter fund (charter capital) by placing additional shares is adopted by the general meeting of shareholders of the debtor, after which this decision is submitted to the external

manager in the form of a petition. The petition may be included in the external management plan if it is submitted to the external manager no later than six months before the date of the end of the external management procedure. Part one of article 109 of the Law establishes that, from the moment of the introduction of the external management procedure, the powers of the debtor's management bodies are terminated. Consequently, the rule provided in part one of Article 130 of the Law is an exception, under which the decision to increase the charter fund (charter capital) by placing additional shares is adopted by the general meeting of shareholders of the debtor.

In accordance with Article 18 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of Shareholders' Rights," the charter fund (charter capital) of a company may be increased by placing additional shares. The decision to increase the charter fund (charter capital) of the company must determine the number of additional ordinary and preferred shares being placed and the time limits and terms of their placement. An increase in the charter fund (charter capital) of the company is registered in the amount of the nominal value of the placed additional shares. At the same time, the number of authorized shares of the corresponding type indicated in the company's charter must be reduced by the number of placed additional shares of that type. A decision to issue additional shares adopted by the appropriate management body of the company is a decision to increase the charter fund (charter capital) of the company.

2. Part two of this article affords the right to adopt the decision to increase the charter fund (charter capital) of the debtor to the meeting of creditors. Initially, the decision to increase the charter fund (charter capital) by placing additional shares is adopted by the general meeting of shareholders of the debtor; however, this decision is submitted to the external manager in the form of a petition. Thereafter, the decision to place additional shares to increase the charter fund of the debtor is adopted by the meeting of creditors and is included in the external management plan. If, in resolving the question of increasing the charter fund (charter capital) of the debtor by placing additional shares, the need arises to introduce amendments and additions regarding an increase in the number of authorized shares established by the debtor's charter, then the decision to increase the charter fund (charter capital) is adopted only after the introduction of the corresponding amendments and additions to the debtor's charter in the procedure provided by legislation. Pursuant to Article 18 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of Shareholders' Rights," decisions to increase the charter fund (charter capital) of a company and to introduce the corresponding amendments to the company's charter are adopted by the general meeting of shareholders or, if under the company's charter or a decision of the general meeting of shareholders the right to adopt such decisions is afforded to the supervisory board of the company, by the supervisory board of the company.

3. Part three of this article states that the placement of additional shares of the debtor may be carried out primarily by open subscription on the condition that their value is paid exclusively in monetary funds. This means that the sale of shares is carried out only by means of financial resources. The shareholders are also afforded a preemptive right, that is, they have the opportunity to acquire additional shares in proportion to the number of shares belonging to them at the price indicated in part four of this article. Pursuant to Article 5 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of Shareholders' Rights," a company has the right to conduct an open subscription for the shares it issues by their public placement in compliance with the requirements of legislation. At the same time, the employees of the company have a preemptive right when acquiring shares within the framework of an employee share ownership plan upon the initial public offering of shares issued by the company.

4. Part four of this article states that additional shares must be placed among shareholders at a price not lower than the nominal value. At the same time, the sale of all placed shares at this price must ensure the raising of funds sufficient for the full satisfaction of the claims of all creditors. The price of placing shares among shareholders is determined by the debtor's external manager and approved by the general meeting of creditors. The period afforded to shareholders for exercising the preemptive right when acquiring shares, that is, the period for making payment, is established by the meeting of creditors and may not be less than thirty days from the date of the start of the placement of shares. Pursuant to Article 5 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and the Protection of Shareholders' Rights," a company has the right to conduct an open subscription for the shares it issues by their public placement, taking into account the requirements of legislation. At the same time, the employees of the company have a preemptive right when acquiring shares within the framework of an employee share ownership plan upon the initial public offering of shares issued by the company. Pursuant to Article 6 of the Law, the procedure and time limits for shareholders to exercise the preemptive right to acquire shares being sold are established by the company's charter, and the period for exercising the preemptive right may not be less than ten and more than thirty days from the moment the shares are placed up for sale. If shares were sold in breach of a shareholder's preemptive right to acquire them, any shareholder of the company and (or) the company itself has the right to demand judicially the transfer to it of the rights and obligations of the purchaser within three months from the moment when the shareholder or the company learned or should have learned of such breach. Assignment of the preemptive right to acquire shares in favor of another person is not permitted.

5. Part five of this article establishes that additional shares not placed among the shareholders of the debtor may be placed up for sale through the stock exchange, and financial resources may be obtained by their sale. If the debtor is recognized as bankrupt and a decision is adopted to commence liquidation proceedings, the persons

who acquired the new shares, that is, the new shareholders, have the right, in accordance with legislation, to present their claims against the debtor in the amount of the sum of the acquired shares. Their claims are satisfied on an extraordinary basis. Claims with respect to the debtor's current payment obligations that arose after the institution of the case on the debtor's insolvency are likewise satisfied on an extraordinary basis.

See also: International Commentary, p. 769.

Article 131. Substitution of the Debtor's Assets

Substitution of the debtor's assets is carried out by creating, on the basis of the debtor's property, one or several joint-stock companies.

The possibility of substituting the debtor's assets may be included in the external management plan if all creditors, in accordance with the register of creditors' claims, voted in favor of adopting such a decision.

Substitution of the debtor's assets by creating, on the basis of the debtor's property, one or several joint-stock companies may be included in the external management plan on the basis of a decision of the owner of the debtor's property or of the management body of the debtor authorized by the constituent documents to adopt the decision to conclude the corresponding transactions.

If the external management plan provides for the creation of one joint-stock company, there is contributed to its charter fund (charter capital) the debtor's property intended for carrying out entrepreneurial activity, including property rights.

If the external management plan provides for the creation of several, there is contributed to their charter funds (charter capitals) the debtor's property intended for carrying out particular types of activity. The composition of the debtor's property contributed in payment of the charter funds (charter capitals) of the joint-stock companies being created is determined by the external management plan.

The size of the charter funds (charter capitals) of the companies being created is determined on the basis of the appraised value of the contributed property, determined by the appraisal organization with account taken of the proposals of the owner of the debtor's property or of the management body of the debtor authorized by the constituent documents to adopt the decision to conclude the corresponding transactions.

Upon the substitution of the debtor's assets, all employment contracts that were in effect before the adoption of the decision to substitute the debtor's assets retain their force, with the transfer of the rights and obligations of the employer to the newly created joint-stock company or joint-stock companies. The debtor's licenses to carry out particular types of activity are subject to re-issuance in the procedure established by legislation.

In the event that the appraised value of the debtor's property exceeds the sum of the creditors' claims, the shares of the joint-stock company or joint-stock companies created on the basis of the debtor's property are included in the composition of the debtor's property and are sold on the stock exchange.

The sale of the shares of the joint-stock company or joint-stock companies created on the basis of the debtor's property must ensure the accumulation of funds for the discharge of the claims of all creditors.

The sale of the shares of the joint-stock company or joint-stock companies created on the basis of the debtor's property is carried out on the market of the stock exchange in the procedure provided by legislation.

The external management plan may provide for the sale of the shares of the joint-stock company or joint-stock companies created on the basis of the debtor's property on the stock exchange.

The satisfaction of the creditors' claims must be carried out in the procedure established by Articles 149 and 150 of this Law.

In the event that the appraised value of the debtor's property does not exceed the sum of claims in accordance with the register of creditors' claims, provided that all creditors voted in favor of adopting the decision to substitute the debtor's assets, the meeting of creditors may adopt the said decision by contributing all of the debtor's property to the charter fund (charter capital) of a joint-stock company or to the charter funds (charter capitals) of several joint-stock companies without the consent of the management body of the debtor authorized by the constituent documents. The size of the charter funds (charter capitals) of the said companies is in this case determined on the basis of the appraised value of the contributed property, determined by the appraisal organization. In the said case, before carrying out the substitution of the debtor's assets, the external manager must obligatorily discharge the indebtedness for wages, for executory documents providing for the transfer or issuance of funds from an account to satisfy claims for the recovery of alimony, for remuneration under copyright contracts, ensuring an equal degree of performance of the debtor's obligations arising from labor and equivalent legal relations, as well as claims of citizens for compensation for harm caused to their property by a crime or administrative offense.

The distribution of shares in the charter fund (charter capital) of the joint-stock company is carried out among the creditors in proportion to their share in the register of creditors' claims, affording the creditors the right to be founders (shareholders) of the joint-stock company.

Substitution of the debtor's assets providing for the replacement of the subject of pledge may be included in the external management plan provided that all creditors whose obligations are secured by a pledge of the debtor's property voted in favor of adopting such a decision.

Upon the substitution of the debtor's assets, for the shares issued by the joint-stock company or several joint-stock companies, the obligations of the creditors secured by the debtor's property arise in proportion to the subject of pledge.

The value of the shares transferred in pledge must be proportional to the value of the property transferred in pledge to the charter fund (charter capital) of the joint-stock company or to the charter fund (charter capital) of several joint-stock companies, on the basis of its market value.

After the completion of settlements with creditors, the external manager prepares a report in accordance with the requirements of Article 158 of this

Law and completes the insolvency procedure of the debtor enterprise in the procedure established by Article 160 of this Law.

Substitution of the debtor's assets does not apply to banks, insurers and professional participants of the securities market in respect of which a case on insolvency has been instituted.

According to the commented article, the substitution of the debtor's assets in the course of the external management procedure is carried out by creating one or several joint-stock companies on the basis of its property. This measure is included in the external management plan only where there is the consent of all creditors whose obligations are secured by a pledge of the debtor's property. At the same time, the property is appraised and contributed to the charter capital of the company. Employment contracts and certain rights pass to the new companies. The shares are sold on the exchange to satisfy the creditors' claims or are distributed among the creditors in proportion to their shares. Claims connected with pledge are likewise preserved, and this procedure does not apply with respect to certain financial organizations.

1. According to this norm, when applying the method of substituting the debtor's assets, one or several joint-stock companies are created on the basis of the property it possesses, and the debtor's assets are transferred to these new companies. For example, a new joint-stock company may be created on the basis of the production buildings, equipment, and other assets of an insolvent enterprise. At the same time, the debtor's property is converted into shares and is further used to attract investors or to satisfy the creditors' claims. This norm is a legal mechanism aimed at the effective management of the debtor's assets and the preservation of economic activity without the full liquidation of the debtor enterprise.

2. According to this norm, the measure for substituting the debtor's assets may be included in the external management plan only in the event that all creditors whose obligations are secured by a pledge of the debtor's property unanimously approve this decision. For example, if it is planned to create a new joint-stock company on the basis of the property of the debtor enterprise and to transfer assets to it, the consent of all creditors included in the register of creditors' claims is required for the implementation of such a measure. This procedure is aimed at the equal protection of the creditors' interests, the prevention of a violation of the rights of individual creditors and the achievement of general agreement on the question of the reorganization of assets.

3. Substitution of the debtor's assets by creating, on the basis of its property, one or several joint-stock companies may be included in the external management plan on the basis of a decision of the owner of the debtor's property or of the management body of the debtor that has been afforded, by the constituent documents, the powers to adopt decisions to conclude the corresponding transactions. Thus, substitution of the debtor's assets is included in the external management plan for the restoration of

the debtor's solvency where the following conditions are present: (a) the adoption, by the owner of the debtor's property or by the management body of the debtor authorized by the constituent documents to adopt decisions to conclude the corresponding transactions, of a decision to substitute the debtor's assets; (b) if all creditors, in accordance with the register of creditors' claims, voted in favor of this decision.

4. According to this norm, if the external management plan provides for the creation of one joint-stock company on the basis of the debtor, all property and property rights of the debtor necessary for carrying out entrepreneurial activity are contributed to the charter fund of that company. For example, the enterprise's buildings, equipment, trademarks, licenses or rights of claim may be transferred to the capital of the newly created joint-stock company. As a result, a new economic entity is created on the basis of the debtor's existing assets, which makes it possible to continue its economic activity and to create the opportunity to attract investors.

5. According to this norm, if the external management plan provides for the creation of several joint-stock companies on the basis of the debtor, the debtor's property is distributed among the particular directions of its activity and contributed to the charter funds of each new company. For example, if the debtor enterprise simultaneously carried out production, transport and trading activity, separate joint-stock companies may be created on the basis of these directions, with the corresponding property transferred to each of them. At the same time, exactly which property or property right will be contributed to the charter capital of which joint-stock company must be precisely determined in the external management plan. This norm is aimed at the effective reorganization of the debtor's assets, the independent separation of particular directions of activity and the increase of their economic efficiency.

6. The size of the charter funds (charter capitals) of the companies being created is determined on the basis of the appraised value of the transferred property, established by the appraisal organization taking into account the proposals of the owner of the debtor's property or of the management body of the debtor authorized by the constituent documents to adopt decisions to conclude the corresponding transactions.

7. Substitution of the debtor's assets does not affect employment contracts. Upon the substitution of the debtor's assets, all employment contracts that were in effect before the adoption of the corresponding decision retain their force upon the transfer of the rights and obligations of the employer to the newly created joint-stock company or joint-stock companies. The labor rights and obligations of each person are preserved in full. If the debtor carried out activity subject to licensing, re-issuance of the debtor's licenses is required.

8. If the appraised value of the property exceeds the sum of the creditors' claims, the shares of the joint-stock company or joint-stock companies created on the basis

of the debtor's property are included in the composition of the debtor's property and are sold on the stock exchange.

9. According to this norm, the funds received from the sale of the shares of the joint-stock company or companies created on the basis of the debtor's property must be sufficient for the maximum possible satisfaction of all creditors' claims. For example, in the course of the external management procedure, a new joint-stock company is created on the basis of the debtor's assets, and its shares are sold to investors. The funds received from such a sale are directed toward discharging the indebtedness to the creditors. This norm establishes that the principal purpose of the sale of shares, along with the reorganization of the debtor's activity, is the protection of the creditors' interests.

10. According to this norm, the sale of the shares of the joint-stock company or companies created on the basis of the debtor's property must be carried out through the stock exchange in compliance with the procedure and rules established by legislation. For example, upon the public placement of such shares, their registration, appraisal, placement and sale are carried out in accordance with the requirements of legislation on the securities market. This norm is aimed at ensuring the transparency of trading in shares, the protection of investors' rights and the sale of shares at a fair price through market mechanisms.

11. The external management plan may provide for the sale of the shares of the joint-stock company created on the basis of the debtor's property through the stock exchange. This process is carried out on the stock exchange, and its financial results serve to satisfy the creditors' claims.

12. For the full implementation of the measures connected with the substitution of the debtor's assets, the procedure for satisfying the creditors' claims must be based on legislation. This, in turn, must be carried out in the procedure and order of priority provided by Articles 149 and 150 of the Law.

13. If the appraised value of the debtor's property does not exceed the sum of claims indicated in the register of creditors' claims, and all creditors voted in favor of adopting the decision to substitute the debtor's assets, the meeting of creditors has the right to adopt such a decision without the consent of the management body of the debtor authorized by the constituent documents, by contributing all of the debtor's property to the charter fund (charter capital) of a joint-stock company or to the charter funds (charter capitals) of several joint-stock companies. At the same time, the size of the charter funds (charter capitals) of the said companies is determined on the basis of the appraised value of the transferred property, established by the appraisal organization. In this case, before carrying out the substitution of the debtor's assets, the external manager is obligated to ensure the performance of the debtor's obligations and the discharge of indebtedness with respect to the following claims: under executory documents providing for the transfer or issuance of funds from an account to satisfy claims for the payment of wages and the recovery of alimony; for payments under copyright contracts; under the debtor's obligations with respect to

taxes and duties, as well as claims arising from labor relations and equivalent legal relations; under claims of citizens for compensation for harm caused to their property as a result of the commission of a crime or administrative offense.

14. The shares contributed to the charter capital of the joint-stock company may be distributed among the creditors. At the same time, shares from the charter capital are allotted to each creditor, which must correspond to its share in the register of creditors' claims. Thus, the creditors are afforded the opportunity to satisfy their claims by becoming shareholders of that company.

15. If there are obligations secured by a pledge of the debtor's property, the subject of pledge may be replaced. Upon the substitution of the debtor's assets, the claims of creditors under obligations secured by the debtor's property arise proportionally in respect of the subject of pledge in the form of shares issued by the joint-stock company or several joint-stock companies. Such a decision is adopted provided that all creditors voted in favor of it and approved it.

16. The value of the shares transferred in pledge must be proportional to the market value of the pledged property transferred to the charter fund (charter capital) of the joint-stock company or to the charter funds (charter capitals) of several joint-stock companies.

17. The shares transferred in pledge must correspond to the market value of the property. The value of the shares must be determined on the basis of reliable appraisal results and correspond to the actual market value of the property securing the pledge.

18. After the completion of settlements with creditors, the external manager prepares a report in accordance with Articles 158 and 160 of the Law. This report indicates all stages of the satisfaction of the creditors' claims, their overall results, as well as the carrying out of the completion procedure.

19. According to this norm, the method of substituting the debtor's assets does not apply with respect to banks, insurance organizations and professional participants of the securities market. For example, it is not possible to create a new joint-stock company on the basis of the assets of a bank recognized as insolvent, or to carry out the reorganization of its property by such a method. This restriction is explained by the fact that the activity of such organizations is directly connected with the stability of the financial market, the interests of depositors and investors, and is regulated by special legislation. This norm is aimed at preserving the stability of the financial system and restricting the application of the general mechanisms of external management in spheres with heightened risks.

See also: International Commentary, p. 770.

Article 132. Report of the External Manager

The external manager is obligated to submit a report for consideration by the meeting of creditors in connection with the end of the time limits of the external management procedure or where there are grounds for its early termination at the demand of the persons (bodies) having the right to convene a meeting of creditors, as well as in the event of the accumulation of funds sufficient to satisfy the claims of all creditors in accordance with the register of creditors' claims.

The external manager is obligated to submit a report to the court if, following consideration of the report, the meeting of creditors has adopted a decision to commence settlements with creditors of a certain priority.

The report of the external manager must contain:

the accounting balance sheet of the debtor as of the last reporting date;

a statement of the movement of funds;

a statement of the financial results of the debtor;

information on the availability of free funds that may be directed toward satisfying the claims of the debtor's creditors under monetary obligations and (or) the performance of obligations with respect to taxes and duties;

a breakdown of the debtor's receivables and information on the debtor's unrealized rights of claim;

other information on the possibility of discharging the debtor's payables.

The register of creditors' claims must be attached to the report of the external manager.

Simultaneously with the submission of the report, the external manager submits to the meeting of creditors one of the following proposals:

on the termination of the external management procedure in connection with the restoration of the debtor's solvency and the transition to settlements with creditors;

on the conclusion of a settlement agreement;

on the extension of the time limit of the external management procedure;

on the termination of the external management procedure and the filing with the court of a petition to recognize the debtor as bankrupt and to commence liquidation proceedings.

The commented article establishes the grounds for the submission of a report by the external manager, as well as the requirements imposed on the report submitted.

1. Part one of this article establishes the duty of the external manager to convene a meeting of creditors upon the completion of the external management procedure or where grounds arise for its early termination. In addition, if funds sufficient to satisfy the claims of all creditors have been accumulated, the external manager is obligated to submit a report to the meeting of creditors. The external manager is obligated to submit a report for consideration by the meeting of creditors in connection with the expiration of the time limit of the external management procedure or where there are grounds for its early termination at the demand of the persons (bodies) having the

right to demand the convening of a meeting of creditors, as well as in the event that, in accordance with the register of creditors' claims, funds sufficient to satisfy the claims of all creditors have been accumulated.

2. According to this norm, if the meeting of creditors, having considered the report of the external manager, adopts a decision to commence settlements with creditors of a certain priority, the external manager is obligated to submit an official report to that effect to the court. For example, if the meeting of creditors adopts a decision to commence the satisfaction of the claims of creditors of the first priority, the external manager is obligated to notify the court of this decision and of the settlements being carried out. This procedure is aimed at ensuring judicial control over the external management procedure, verifying the satisfaction of the creditors' claims in the order of priority established by law and ensuring the transparent distribution of funds.

3. The report of the external manager must contain the following information: the accounting balance sheet of the debtor as of the last reporting date; a statement of the movement of funds; a statement of the financial results of the debtor; information on the presence or absence at the debtor of free funds that may be directed toward satisfying the creditors' claims under monetary obligations and (or) obligations with respect to taxes and duties; information on the detailing of the debtor's receivables, as well as on rights of claim not realized by the debtor; other information on the debtor's ability to discharge its payables.

4. According to this norm, the register of creditors' claims must also obligatorily be attached to the report submitted by the external manager to the court or to the meeting of creditors. For example, when the external manager submits a report on the financial condition of the debtor or on settlements with creditors, it is also obligated to submit the register indicating which claims each creditor has and in what order of priority they are subject to satisfaction. As a result, the court and the creditors receive full information on the debtor's obligations and obtain the opportunity to verify that the settlements are being carried out lawfully and transparently.

5. Simultaneously with the submission of the report, the external manager submits for consideration by the meeting of creditors one of the following proposals: to terminate the external management procedure and transition to settlements with creditors in connection with the restoration of the debtor's solvency; to conclude a settlement agreement; to terminate external management and recognize the debtor as bankrupt.

See also: International Commentary, p. 770.

Article 133. Consideration of the Report of the External Manager

The report of the external manager is considered by the meeting of creditors, which is convened no later than ten days after the expiration of the time limit of the external management procedure or no later than fifteen days after the arising of grounds for the early termination of external management, or no later than one month in the event that the meeting of creditors is convened at the demand of the persons (bodies) having the right to convene a meeting of creditors.

The external manager is obligated to notify all creditors of the holding of a meeting of creditors to consider the report of the external manager in the procedure provided by Article 14 of this Law.

The external manager is obligated to afford the creditors the opportunity to familiarize themselves in advance with the report of the external manager no less than fifteen days before the expiration of the time limit of the external management procedure or no less than ten days before the established date of the convening of the meeting of creditors.

Following the consideration of the report of the external manager, the meeting of creditors has the right to adopt one of the following decisions:

on filing with the court a petition to terminate the external management procedure in connection with the restoration of the debtor's solvency and to transition to settlements with creditors;

on the conclusion of a settlement agreement;

on filing with the court a petition to extend the time limit of the external management procedure;

on filing with the court a petition to recognize the debtor as bankrupt and to commence liquidation proceedings.

The commented article establishes the procedure for the consideration of the report of the external manager by the meeting of creditors, the time limits for notifying creditors and for familiarization in advance with the report, as well as the possibility of adopting, following the consideration of the report, a decision to terminate or extend external management, to conclude a settlement agreement or to recognize the debtor as bankrupt.

1. The report of the external manager must be submitted no later than ten days after the expiration of the time limit of the external management procedure or no later than fifteen days after the arising of grounds for the early termination of this procedure. If a meeting of creditors is convened, this report must be considered no later than one month. Thus, this part establishes specific time limits for the timely submission of the report and the adoption of the corresponding decisions.

2. The external manager is obligated to notify all creditors of the holding of a meeting of creditors to consider the report. Pursuant to Article 14 of the Law, if it is impossible to determine the information necessary for the personal notification of a creditor or other person having the right to participate in the meeting of creditors, or

if there are other circumstances impeding the personal notification of such persons, the publication of the notice of the holding of the meeting of creditors in the procedure established by the Cabinet of Ministers and in the mass medium determined by it is recognized as proper notification of such persons.

The notice of the holding of a meeting of creditors must contain the following information: the name and location of the debtor — a legal person; the date, time and place of the holding of the meeting of creditors; the agenda of the meeting of creditors; the procedure for familiarization with the materials subject to consideration at the meeting of creditors; the procedure for the registration of participants of the meeting of creditors; the surname, name, patronymic and place of residence of the individual entrepreneur debtor or a physical person.

3. According to this norm, the external manager is obligated to afford the creditors sufficient time for familiarization in advance with its report. In particular, the creditors must have the opportunity to familiarize themselves with the report no less than fifteen days before the end of the external management procedure or no less than ten days before the holding of the meeting of creditors. For example, if the meeting of creditors is scheduled for 20 June, the external manager is obligated to submit the report to the creditors or to ensure the possibility of familiarization with it no later than 10 June. This procedure ensures that the creditors have the opportunity to analyze the report, assess the results of external management, and adopt a well-grounded decision at the meeting.

4. According to this norm, after the consideration of the report of the external manager, the meeting of creditors, proceeding from the financial condition of the debtor and the results of external management, has the right to adopt one of several important decisions. In particular, if the debtor's solvency has been restored and settlements with creditors have begun, an application may be filed with the court to terminate external management. For example, if the enterprise has restored its activity and has obtained the possibility of discharging its indebtedness, the creditors apply to the court with a request to complete the external management procedure. If the parties have reached a mutual agreement, a decision to conclude a settlement agreement may be adopted; if the continuation of external management is necessary, a decision to extend its time limit; or, conversely, if there is no possibility of restoring the financial condition, a decision to recognize the debtor as bankrupt and to commence the liquidation procedure. This norm affords the creditors the opportunity to protect their interests by adopting decisive decisions regarding the further fate of the external management procedure.

See also: International Commentary, p. 770.

Article 134. Approval of the Report of the External Manager by the Court

The report of the external manager considered by the meeting of creditors and the minutes of the meeting of creditors are submitted by the external manager to the court no later than two days after the date of the holding of the meeting of creditors.

The register of creditors' claims and the complaints of creditors who voted against the decision adopted by the meeting of creditors or who did not participate in the voting must be attached to the report of the external manager.

The report of the external manager and the complaints of creditors are considered by the court at a session. The external manager, as well as the creditors who filed complaints, are notified of the date, time and place of the court session. The non-appearance of the notified persons does not impede the consideration of the case on insolvency.

The report of the external manager is subject to approval by the court if:

all claims of creditors in accordance with the register of creditors' claims have been discharged;

the meeting of creditors has adopted a decision to file with the court a petition to terminate external management in connection with the restoration of the debtor's solvency and to transition to settlements with creditors;

the meeting of creditors has adopted a decision to commence settlements with creditors of a certain priority;

the external manager has declared a petition to commence settlements with creditors of a certain priority;

a settlement agreement has been concluded between the creditors and the debtor;

the meeting of creditors has adopted a decision to file with the court a petition to extend the time limit of the external management procedure.

The court refuses to approve the report of the external manager if it is established that:

there is no discharge of the claims of all creditors in accordance with the register of creditors' claims;

there are no signs of the restoration of the debtor's solvency;

there are no grounds for commencing settlements with creditors of a certain priority;

there are impediments to the approval of the amicable agreement.

Following the consideration of the report of the external manager, the court issues a ruling:

on the termination of the proceedings on the case on insolvency–in the event of the discharge of the claims of all creditors in accordance with the register of creditors' claims or in the event of the approval by the court of a settlement agreement;

on the transition to settlements with creditors–in the event of the satisfaction of the petition of the meeting of creditors to terminate the external management procedure in connection with the restoration of the debtor's solvency;

on the commencement of settlements with creditors of a certain priority–in the event of the satisfaction of the petition of the meeting of creditors or the external manager to commence settlements with creditors of a certain priority;

on the extension of the time limit of the external management procedure–in the event of the satisfaction of the petition to extend the time limit of external management;

on the refusal to approve the report of the external manager–in the event of the detection of the circumstances provided by part five of this article.

Where there is a petition of the meeting of creditors to recognize the debtor as bankrupt and to commence liquidation proceedings, as well as in the event of the court's refusal to approve the report or the failure to submit the report of the external manager within a month from the moment of the end of the established time limit of external management, or the failure to adopt any one of its decisions provided by indents two, three and four of part four of Article 133 of this Law, the court adopts a decision to recognize the debtor as bankrupt and to commence liquidation proceedings.

The commented article establishes the procedure for the approval of the report of the external manager by the court. This article determines the procedure for the submission of the report of the external manager to the court and its consideration by the court, the cases in which the court may approve or refuse to approve the report, as well as the types of judicial acts that the court may adopt following the consideration of the report of the external manager.

1. According to this norm, the external manager is obligated to submit to the court its report considered at the meeting of creditors, as well as the minutes of the meeting, within two days from the date of the holding of the meeting. For example, if the meeting of creditors took place on 5 August, the external manager is obligated to send the report and the minutes to the court no later than 7 August. This procedure ensures constant judicial control over the external management procedure, the recording of the decisions adopted by the creditors, and the continuation of the proceedings in the case without unjustified delays.

2. According to this norm, the report submitted by the external manager to the court must be accompanied not only by the register of creditors' claims, but also by the complaints of creditors who voted against the decision adopted at the meeting of creditors or who did not participate in the voting. For example, if individual creditors do not agree with the decision to extend external management or to recognize the debtor as bankrupt, their objections and complaints must likewise be submitted to the court. As a result, the court obtains the opportunity to study the positions of all creditors fully and to verify the lawfulness and fairness of the decisions adopted.

3. According to this norm, the report of the external manager and the complaints filed by creditors are considered at a court session, and the external manager and the creditors who filed complaints must be notified in advance of the date, time, and place of the holding of the court session. For example, if a creditor filed a complaint, not agreeing with the report of the external manager, the court considers this question

at an open court session and affords the parties the opportunity to participate. However, even if persons duly notified of the court session fail to appear, the consideration of the case is not suspended. This norm is aimed at ensuring the promptness of judicial proceedings, preventing the artificial prolongation of the proceedings on the case and affording the parties equal opportunities to express their position.

4. According to this norm, the report of the external manager is subject to approval by the court where there are certain grounds established by legislation. In particular, if all claims of creditors have been satisfied, the debtor's solvency has been restored, settlements with creditors have commenced, or the meeting of creditors has adopted a decision to terminate external management, to extend it or to conclude a settlement agreement, the court approves the report of the external manager. For example, if, as a result of external management, the debtor has achieved financial stability and has begun discharging its indebtedness to the creditors, the meeting of creditors may adopt a decision to terminate external management, and in this case the court approves the report. Also, in the event of the need to commence settlements with creditors of a certain priority or to extend the time limit of external management, the court considers the report and adopts the corresponding decision. This norm is aimed at ensuring judicial control over the lawfulness and efficiency of the external management procedure.

5. According to this norm, the court approves the report of the external manager only on the condition of the fulfillment of the requirements established by legislation; otherwise it refuses to approve it. In particular, if the claims of all creditors have not been satisfied, the debtor's solvency has not been restored, there are no sufficient grounds for commencing settlements with creditors of a certain priority, or there are circumstances impeding the approval of the amicable agreement, the court does not approve the report. For example, if the external manager indicated that the debtor's financial condition had improved, but in fact a significant part of the creditors' claims remained unsatisfied, the court may refuse to approve the report. This norm is aimed at ensuring that the external management procedure is based not on formal actions, but on actual results, as well as at protecting the creditors' interests.

6. According to this norm, following the consideration of the report of the external manager, the court issues a ruling on the termination of the proceedings on the case, the transition to settlements with creditors, the extension of the time limit of external management or the refusal to approve the report of the external manager, proceeding from the financial condition of the debtor and the state of settlements with creditors. For example, if the claims of all creditors have been satisfied or a settlement agreement has been approved, the court terminates the proceedings in the insolvency case. If the debtor's solvency has been restored, the court may adopt a decision to transition to settlements with creditors. Also, in the event that external management has not yielded a positive result or shortcomings provided by legislation have been detected, the court refuses to approve the report of the external manager.

This norm reinforces the decisive role of the court in the legal assessment of the results of external management and in determining the further course of the procedure.

7. According to this norm, if the external management procedure has not yielded the expected result, the report of the external manager has been rejected by the court, the report has not been submitted within the established time limit, or the meeting of creditors has not adopted the necessary decisions regarding the further fate of the debtor, the court adopts a decision to recognize the debtor as bankrupt and to commence the liquidation procedure. For example, if the external manager did not submit the report within the established time limit or the meeting of creditors did not adopt a decision to extend external management, to conclude a settlement agreement, or to transition to settlements, the court may transfer the case to the liquidation stage. In addition, if the meeting of creditors itself filed a petition to recognize the debtor as bankrupt, the court likewise adopts the corresponding decision. This norm is aimed at preventing the artificial prolongation of the case in cases of the inefficiency of the external management procedure and at protecting the creditors' interests.

See also: International Commentary, p. 770.

Article 135. Consequences of the Issuance of a Ruling on the Transition to Settlements with Creditors

The issuance by the court of a ruling on the transition to settlements with creditors is a ground for the commencement of settlements with all creditors in accordance with the register of creditors' claims.

The court ruling on the transition to settlements with creditors establishes the time limit for the completion of settlements with creditors, which may not exceed six months from the date of the issuance of the said ruling.

The proceedings on the case on insolvency are terminated after the completion of settlements with creditors and the consideration by the court of the report of the external manager on the results of settlements with creditors.

If settlements with creditors are not made within the time limit established by the court, the court adopts a decision to recognize the debtor as bankrupt and to commence liquidation proceedings.

The commented article establishes that the court ruling on the transition to settlements with creditors is a ground for the commencement of settlements with all creditors, that such settlements must be completed within a time limit not exceeding six months, that after their completion the proceedings on the case are terminated, and that, in the event that settlements are not made within the established time limit, the debtor is recognized as bankrupt and the liquidation procedure commences.

1. According to this norm, from the moment of the issuance by the court of a ruling on the transition to settlements with creditors, the debtor is obligated to commence settlements with all creditors in the procedure and order of priority

indicated in the register of creditors' claims. For example, if the court recognizes that the debtor's solvency has been restored and issues a ruling on the transition to settlements, the external manager begins the process of discharging the indebtedness in accordance with the order of priority established in the register of creditors. This norm serves to establish the legal ground for the satisfaction of the creditors' claims, to ensure the orderly and lawful conduct of settlements, as well as the equal treatment of all creditors.

2. According to this norm, upon the issuance of a ruling on the transition to settlements with creditors, the court also establishes the time limit within which the debtor is obligated to complete settlements with creditors, and this time limit may not exceed six months. For example, if the court issued a ruling on the transition to settlements on 1 March, all settlements with creditors must be completed no later than 1 September. This procedure is aimed at preventing the unjustified prolongation of the external management procedure, the timely satisfaction of the creditors' claims and ensuring the carrying out of the proceedings on the case within the established time limits.

3. Part three of this article determines the conditions for the termination of the proceedings on the case on insolvency during the period of the external management procedure. Such conditions include the completion of settlements with creditors and the consideration by the court of the report of the external manager on the results of settlements with creditors. After the performance of the said actions, the proceedings on the case on insolvency during the period of the external management procedure are terminated.

4. According to this norm, if, within the time limit established by the court, settlements with creditors have not been fully made, the court adopts a decision to recognize the debtor as bankrupt and to commence the procedure of its liquidation. For example, if the court established a time limit for the completion of settlements with creditors within six months, but by the end of this time limit the indebtedness was not discharged, it is deemed that external management did not yield a positive result. In such a case, the court, taking into account the absence of the possibility of restoring the debtor's financial condition, proceeds to the stage of liquidation proceedings. This norm is aimed at preventing the endless continuation of the external management procedure and protecting the creditors' interests.

See also: International Commentary, p. 770.

Article 136. Consequences of the Issuance of a Ruling on the Commencement of Settlements with Creditors of a Certain Priority

The issuance by the court of a ruling on the commencement of settlements with creditors of a certain priority is a ground for the commencement of settlements with creditors in accordance with the register of creditors' claims.

The court ruling on the commencement of settlements with creditors of a certain priority establishes:

the priority of satisfaction of the claims of creditors whose claims begin to be satisfied;

the time limit for the completion of settlements with creditors of such priority, which may not exceed two months from the date of the issuance of the said ruling;

the proportions of satisfaction of the claims of creditors of such priority.

In the event of the establishment by the court of claims of creditors subject to satisfaction within the composition of the priority in respect of whose creditors a ruling on the commencement of settlements with them has been issued, the court has the right to issue a ruling on changing the procedure for the satisfaction of the creditors' claims.

If, within the time limit established by the court, settlements with creditors of a certain priority are not made or settlements are not made in a certain proportion, the creditor has the right to demand the accrual on the unpaid sum of interest in the amount provided by Article 327 of the Civil Code of the Republic of Uzbekistan, from the date of the issuance of the ruling on the commencement of settlements with creditors of a certain priority and until the date of the discharge of its claim, in full or in a certain proportion, respectively.

The commented article establishes that the court ruling on the commencement of settlements with creditors of a certain priority is a ground for the satisfaction of the creditors' claims in the established order of priority, time limits and proportions; it also provides for the possibility of the court changing the procedure for settlements, and, where the established time limits or proportions are not observed, the creditors have the right to the recovery of interest.

1. The issuance by the court of a ruling on the commencement of settlements with creditors of a certain priority makes it possible to commence settlements with creditors in accordance with the register of creditors' claims. In the course of the external management procedure, where there are sufficient funds for carrying out settlements with creditors of a certain priority, the meeting of creditors or the external manager has the right to apply to the court with a petition to carry out settlements with creditors of a certain priority. After the consideration of such a petition, the court, if it recognizes it as well-grounded, proceeds to the stage of carrying out settlements with creditors of the corresponding priority.

2. According to this norm, upon the issuance by the court of a ruling on the commencement of settlements with creditors of a certain priority, the court clearly establishes the main conditions for carrying out such settlements. In particular, the ruling indicates the claims of which creditors of a certain priority begin to be satisfied, within what time limit the settlements must be completed, and in what ratio the creditors' claims will be satisfied. For example, the court may establish the satisfaction of the claims of creditors of the first priority in the amount of 70 percent within two months. This procedure serves to ensure the carrying out of settlements with creditors on the basis of a clear plan, transparently and in an orderly manner.

3. According to this norm, if, after the commencement of settlements with certain creditors, the court establishes that the claims of other creditors must be satisfied earlier, the court has the right to change the procedure for the satisfaction of the creditors' claims. For example, if settlements with creditors of the second priority were initially commenced, and it is subsequently established that there are claims of employees or other privileged creditors that must be satisfied first, the court may change the sequence of carrying out settlements. This norm is aimed at ensuring the fair satisfaction of the creditors' claims in accordance with the order of priority established by law and at preventing a violation of the rights of individual creditors.

4. According to this norm, if settlements with creditors of a certain priority are not carried out within the time limit established by the court, or are not made in the established proportion, the creditor has the right to demand the recovery of additional interest on the unpaid sum. For example, if the court established the discharge of 80 percent of a creditor's claim within two months, but within this time limit the funds were not paid or were paid in part, the creditor has the right to demand the accrual of interest on the undischarged sum in accordance with Article 327 of the CC. At the same time, the interest is accrued from the day of the issuance of the judicial ruling on the commencement of settlements until the day of the full satisfaction of the claim or until the day of its satisfaction in the established amount. This norm is aimed at protecting the property interests of creditors and stimulating the timely carrying out of settlements.

See also: International Commentary, p. 770.

Article 137. Settlements with Creditors

Settlements with creditors are made by the external manager in accordance with the register of creditors' claims beginning from the day of the issuance by the court of a ruling on the transition to settlements with creditors or a ruling on the commencement of settlements with creditors of a certain priority.

Settlements with creditors are carried out in the procedure provided by this Law.

From the moment of the performance of the monetary obligations and (or) obligations with respect to taxes and duties of the debtor, the external manager enters the corresponding record in the register of creditors' claims.

The commented article establishes that the external manager carries out settlements with creditors from the date of the issuance of the corresponding court ruling on the basis of the register of creditors' claims in the procedure established by legislation, and is also obligated to enter the corresponding record in the register after the performance of the debtor's obligations.

1. According to this norm, the external manager carries out settlements with creditors only after the issuance by the court of the corresponding ruling and in accordance with the order of priority and the amounts of claims established in the

register of creditors' claims. For example, from the date of the issuance by the court of a ruling on the transition to general settlements with creditors or on the commencement of the satisfaction of the claims of creditors of a certain priority, the external manager proceeds to discharge the indebtedness. At the same time, the amount of payments to each creditor is determined on the basis of the register of creditors' claims. This norm is aimed at ensuring the orderly, transparent carrying out of settlements and their performance in the order of priority established by legislation.

2. Article 154 of the Law establishes the procedure for carrying out settlements with creditors, and Article 150 of the Law determines the order of priority of satisfaction of the creditors' claims. The said conditions and order of priority of settlements apply not only in the procedure for liquidation proceedings, but also during the period of external management. In addition, the satisfaction of the claims of creditors secured by the debtor's property, as well as settlements with them during the period of external management, are carried out in accordance with Article 149 of the Law.

3. Part three of this article regulates the procedure for entering records in the register of creditors' claims. According to it, if the monetary obligations of the debtor, as well as its obligations with respect to taxes and duties, have been performed, the external manager is obligated to enter the corresponding records in the register of creditors' claims. These records are of important significance for ensuring the stage-by-stage and clear carrying out of settlements with creditors in the established procedure.

See also: International Commentary, p. 770.

Article 138. Discharge of the Claims of Creditors

Discharged are deemed to be the satisfied claims of creditors, as well as claims with respect to which an agreement has been reached on buyout or on the novation of an obligation, or on the termination of monetary obligations in another manner, and other claims that, in accordance with Articles 150 and 154 of this Law, are recognized as discharged.

The commented article enshrines the list of claims of creditors that are deemed satisfied (and are not subject to repeated consideration). These include: (a) satisfied claims; (b) claims with respect to which an agreement has been reached on buyout, a novation of the obligation has been made or an agreement on the termination of the monetary obligation in another manner has been reached; (c) other claims recognized as satisfied in accordance with Articles 150 and 154 of the Law. Pursuant to part seven of Article 150 of the Law, if the recovered sum is insufficient for the full satisfaction of all claims of one priority, such claims are satisfied in proportion to the sum due to each claimant. In addition, in accordance with part five of Article 154 of

the Law, the claims of creditors not satisfied on account of the insufficiency of the debtor's property are likewise deemed satisfied, except in cases where the debtor's obligations are secured by third parties. The claims of creditors not recognized by the liquidation manager are likewise deemed satisfied if the creditor did not apply to the court or if such claims were recognized by the court as unfounded.

Pursuant to Article 128 of the Law, assignment of a right of claim in favor of another person may be carried out by selling the right of claim by the external manager at electronic online bidding in the form of an electronic auction with the consent of the meeting of creditors or the committee of creditors, unless otherwise provided by the external management plan. Pursuant to Article 342 of the CC, an obligation may be terminated by the provision of compensation in lieu (the payment of funds, the transfer of property and the like) in place of its performance, if an agreement on compensation in lieu has been reached between the debtor and the creditor.

The conclusion of an agreement on novation is regulated by Article 347 of the CC. An obligation is terminated if the parties have agreed to replace the initial obligation with another obligation between the same persons, providing for a different subject or a different manner of performance. Novation of obligations to compensate for harm caused to life or health, as well as obligations to pay alimony, is not permitted. Unless otherwise provided by the agreement of the parties, novation also terminates the additional obligations connected with the initial obligation.

See also: International Commentary, p. 770.

Article 139. Procedure for the Termination of the Powers of the External Manager

The termination of the proceedings on the case on insolvency or the adoption by the court of a decision to recognize the debtor as bankrupt and to commence liquidation proceedings in respect of the debtor entails the termination of the powers of the external manager.

If the external management procedure is completed by the conclusion of a settlement agreement or the discharge of the creditors' claims, the external manager continues to perform the duties of the manager of the debtor until the moment of the election (appointment) of a new manager.

The external manager has the right, on its own initiative, to convene the management body of the debtor to consider the question of the election (appointment) of the manager of the debtor. The powers of the other management bodies of the debtor and of the owner of the debtor's property are restored.

If the court has adopted a decision to recognize the debtor as bankrupt and to commence liquidation proceedings, and another person has been appointed as the liquidation manager, the external manager continues to perform its duties until the moment of the transfer of affairs to the liquidation manager. The external manager is obligated to transfer affairs to the liquidation manager no later than three working days from the date of the appointment of the liquidation manager.

The commented article establishes that the termination of the proceedings in the insolvency case or the adoption of a decision to recognize the debtor as bankrupt is a ground for the termination of the powers of the external manager. However, in individual cases, it continues to perform its duties until the transfer of affairs to a new manager or to the liquidation manager.

1. Part one of this article provides for two cases in which the powers of the external manager may be terminated. The first case–the termination of the proceedings on the case on insolvency. In accordance with part one of Article 57 of the Law, the court terminates the proceedings in the insolvency case if, in the course of the external management procedure, the debtor's solvency has been restored. The second case is the adoption by the court of a decision to recognize the debtor as bankrupt and to introduce liquidation proceedings. This occurs when the satisfaction of the creditors' claims becomes impossible, and the external management plan cannot be implemented properly, as a result of which the transition from the external management procedure to the liquidation procedure is carried out. The powers of the external manager are terminated from the moment of the issuance by the court of a ruling on the termination of the proceedings in the insolvency case or of a decision to introduce the liquidation proceedings.

2. According to this norm, if the external management procedure is completed successfully by the conclusion of a settlement agreement with the creditors or the satisfaction of their claims, the external manager does not terminate its powers immediately. It continues temporarily to perform the duties of the manager of the debtor until the election or appointment of a new manager. For example, if the enterprise's solvency has been restored and external management has been terminated, but a new director has not yet been appointed, the external manager continues to exercise the management of the enterprise so as not to permit an interruption in its activity. This procedure is aimed at ensuring the stability of the enterprise's activity, preventing the arising of a management vacuum and ensuring the orderly transfer of affairs to a new manager.

3. According to part three of the commented article, the external manager has the right independently to come forward with the initiative on the re-election or appointment of the manager of the debtor, if such a need arises. In this case, after the court ruling on the termination of the proceedings in the case on insolvency enters into legal force, the external manager convenes the management bodies of the debtor to consider the question of the election (appointment) of the manager of the debtor in accordance with the legislation in force and the constituent documents of the debtor. It should be noted that the legislator did not establish specific time limits for the performance of the following duties imposed on the external manager: the convening of the management body of the debtor enterprise and the consideration at its session of the question of the election (appointment) of the manager; the transfer of the powers of the manager of the debtor enterprise to the new manager elected or appointed by the owner of the property. After the election (appointment) of the

manager of the debtor, the restrictions on its legal capacity introduced in accordance with the Law "On Insolvency" are lifted. Accordingly, the powers of the management bodies of the debtor are likewise restored in full.

4. According to this norm, if the court recognizes the debtor as bankrupt and adopts a decision to commence the liquidation procedure, and another person is appointed as the liquidation manager, the external manager continues to perform its duties until the full completion of the transfer of affairs. For example, after the appointment of the liquidation manager, the enterprise's documents, property, seals, and other materials connected with the conduct of the debtor's activity must be transferred to it in the established procedure. At the same time, the external manager is obligated to carry out such a transfer within three working days from the day of the appointment of the liquidation manager. This norm is aimed at ensuring the continuous and orderly transfer of management powers, preventing the loss of documents and the arising of gaps in management.

See also: International Commentary, p. 770.

CHAPTER 11. PROCEDURE FOR LIQUIDATION PROCEEDINGS

Article 140. Opening of Liquidation Proceedings

The adoption by the court of a decision declaring the debtor bankrupt shall entail the commencement of liquidation proceedings.

The term of the liquidation proceedings may not exceed twelve months. Where necessary, this term may be extended by a court ruling for up to three months upon the petition of a person participating in the insolvency case or on the initiative of the court.

The grounds for extending the term of the liquidation proceedings may be as follows:

the existence of a case affecting the property interests of the debtor or its creditors that is pending in judicial or enforcement proceedings;

the existence of unrealized property of the debtor except for the cases provided for in Article 57 of this Law;

the existence of a criminal case concerning signs of false insolvency, concealment of insolvency or deliberate insolvency or other crimes against the interests of the debtor that is a legal entity and its creditors committed by officials of the debtor;

the need to remedy violations of legislation indicated in a court ruling refusing to approve the liquidation manager's report on the results of the liquidation proceedings;

the need to remedy violations of legislation identified by an authorized state body.

A court ruling extending the term of the liquidation proceedings may be appealed against or protested.

Based on the specific nature of the debtor's activity and upon the petition of the meeting of creditors and (or) the relevant republican bodies of executive authority, bodies of economic management or local bodies of executive authority, the court may indicate in the decision declaring the debtor bankrupt that the liquidation proceedings are to be conducted without suspending the debtor's activity. In such a case, the suspension of or refusal to perform the debtor's contracts concluded before the initiation of the insolvency case and necessary for carrying out the activity shall not be permitted.

The liquidation manager shall continue performance of contracts concluded before the initiation of insolvency proceedings against the debtor that are deemed important for the continuation of the debtor's activity. In this regard, an agreement of the parties to suspend or refuse performance of contracts in connection with the debtor being declared bankrupt and the opening of the liquidation proceedings shall be deemed invalid except for the cases provided for by this Law.

A transaction made by the debtor with a particular creditor or another person after acceptance of the insolvency petition may be declared invalid by the court upon the application of the liquidation manager or a creditor if the transaction in question results in preferential satisfaction of the claims under the debtor's monetary obligations to some creditors over others.

Conducting the liquidation proceedings of the debtor without suspending its activity shall be deemed economically inexpedient if a loss from the activity has been incurred for two consecutive reporting quarters.

Where conducting the liquidation proceedings of the debtor without suspending its activity is deemed economically inexpedient, the court may issue a ruling terminating the conduct of the liquidation proceedings of the debtor without suspension of its activity and transitioning to the general procedure for liquidation proceedings.

The article under commentary establishes that a debtor being declared bankrupt constitutes the grounds for commencing liquidation proceedings the term of which may not exceed twelve months and which may be extended where necessary for up to three months; the extension applies in particular cases where there are property interests at stake or violations of legislation; it does not suspend performance of particular contracts although transactions contrary to the interests of creditors may be declared invalid; furthermore where the activity consistently generates losses the court decides to transition to the general procedure for liquidation.

1. Following consideration of the insolvency case and upon establishing signs of the debtor's insolvency, the court adopts a decision declaring the debtor bankrupt. From the moment this decision is adopted, the liquidation proceedings are carried out in accordance with the requirements established by law. The court decision declaring the debtor that is a legal entity bankrupt and opening the liquidation proceedings must reflect directions on declaring the debtor bankrupt, opening the liquidation proceedings, appointing the liquidation manager, and paying the manager's remuneration.

2. The establishment by law of a term for the liquidation proceedings is aimed at ensuring the efficiency and promptness of the liquidation procedure. This is necessary to protect the interests of creditors, prevent the loss or depreciation of the debtor's property, and avoid prolonging uncertainty in economic activity. Where additional time is required during the liquidation proceedings, the term may be extended for up to three months upon the request of persons participating in the case (the debtor, the judicial manager, creditors, an authorized state body, or a person that has provided security for the debtor's obligations) and also on the initiative of the court. In such a case, the court issues the corresponding ruling.

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40. Under Article 140 of the Law the term of the liquidation proceedings may not exceed twelve months. Accordingly, the court decision declaring the debtor bankrupt and opening the liquidation proceedings should establish a specific term

for the liquidation manager to submit the report on the results of conducting the liquidation proceedings.

Where necessary, upon the petition of a person participating in the insolvency case or on the initiative of the court, this term may be extended by a court ruling for no more than three months where grounds exist that are provided for in **part three of Article 140 of the Law.**

Accordingly, this provision ensures a balance between economic promptness on the one hand and lawfulness together with the protection of the rights of interested persons on the other.

3. Preventing the liquidation proceedings from continuing beyond the established term is one of the principal requirements of the law. In practice, however, it is not always possible to complete the proceedings within the established term in particular cases. For this reason, part three of this article clearly defines the grounds for extending the term of the liquidation proceedings, which makes it possible to ensure a fair and complete conduct of the liquidation process.

4. The law establishes a provision under which a court ruling extending the term of the liquidation proceedings may be appealed against by persons participating in the case, and a protest against it may be lodged by the prosecutor.

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27. Judicial acts in insolvency cases may be reviewed in the procedure established by the EPC taking into account the particular features provided for by the Law.

Rulings issued by a court within the framework of an insolvency case that are not provided for by the EPC may be appealed against (a protest may be lodged against them) only in the cases and in the procedure established by the Law, except for the rulings provided for by Article 51, part two of Article 95, part two of Article 108 and **part four of Article 140 of the Law,** which may be appealed against (a protest may be lodged against them) in the procedure provided for by the EPC.

This provision is aimed at ensuring transparency and lawfulness in the liquidation proceedings and at establishing effective oversight of judicial acts.

5. Part five of this article defines the grounds and procedure for conducting the liquidation proceedings without terminating the activity of the debtor that is a legal entity.

Firstly, it establishes which persons are entitled to apply to the court with the corresponding petition. *Secondly,* it provides that the court decision declaring the debtor bankrupt and opening the liquidation proceedings must indicate satisfaction of such petition. *Thirdly,* it establishes that termination of performance or refusal to

perform contracts concluded before the initiation of the insolvency case and necessary for the continuation of the debtor's activity shall not be permitted. In this regard the particularities of the activity of the debtor that is a legal entity are of significant importance, in particular its strategic or social significance. This mechanism serves to preserve the assets of the legal entity, protect the rights and legitimate interests of employees, and ensure the effective completion of the liquidation proceedings.

6. Part six of this article defines the conditions for continuing performance of contracts concluded with the debtor before the initiation of the insolvency case that are considered important for the continuation of the debtor's activity.

For example, contracts for the supply of raw materials, the provision of electric power, and other contracts concluded before the initiation of the insolvency case may be deemed necessary for the continuation of the debtor's activity, and their performance may be continued by the liquidation manager.

Furthermore, the very fact of the debtor being declared bankrupt and the opening of the liquidation proceedings is not grounds for the parties to conclude an agreement to terminate performance of contracts or to refuse their performance. Such an agreement is deemed invalid from the moment of its conclusion.

At the same time, the Law also provides for exceptions to this rule. In particular, under part two of Article 144 of the Law, the liquidation manager is entitled to refuse to perform the debtor's contracts in accordance with the procedure established by Article 119 of the Law.

The liquidation manager is entitled to refuse to perform contracts concluded by the debtor before the initiation of the insolvency case only with respect to contracts that have not been performed or have been performed only in part where one of the following circumstances is present:

first, if performance of the contract entails losses for the debtor or (and) infringes the rights and legitimate interests of the debtor or creditors as compared with similar contracts concluded under comparable conditions;

second, if the contract is long-term (concluded for a term of more than one year) or is intended to produce positive results for the debtor only in the distant future;

third, if the contract provides for preferential satisfaction of the claims of one creditor over the claims of other creditors;

fourth, if there are other circumstances impeding the restoration of the debtor's solvency.

The significance of this provision lies in the fact that, by preserving the debtor's activity, the debtor may achieve financial stability and partially or fully perform its obligations to creditors since the income generated from the activity carried out ensures that settlements are made during the liquidation proceedings.

7. After the court accepts the petition to initiate the debtor's insolvency case, the debtor retains the right to conclude civil-law transactions with creditors and other persons.

However, such transactions must not result in preferential satisfaction of the claims of particular creditors under the debtor's financial obligations as compared with the claims of other creditors.

In particular, where the debtor has an overall debt owed to several creditors, settlements with particular creditors by way of sale or transfer of assets must not violate the principle of proportionality among creditors established in accounting and legislation.

For example, where the debtor's overall debt to ten creditors amounts to 10 billion soums of which 5 billion soums is owed to a commercial bank, the conclusion after acceptance of the petition of a transaction transferring to that bank immovable property worth 3 billion soums that is not the subject of a pledge may cause harm to the interests of other creditors.

In such cases, the relevant transactions may be reviewed in judicial proceedings upon the claim of the liquidation manager or an interested creditor. Where the transaction is declared invalid by a court decision, the restoration of the assets and obligations to the original state that existed before the conclusion of the transaction shall be ensured.

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32. In addition to the grounds provided for by the Civil Code of the Republic of Uzbekistan (hereinafter—the Civil Code) transactions may also be declared invalid by a court on the grounds established by Articles 63-66, part two of Article 120, **part seven of Article 140,** Article 169, part five of Article 219 and part one of Article 231 of the Law.

This provision after the initiation of the insolvency case prohibits the debtor from creating privileged conditions for particular creditors by preferential satisfaction of their claims as compared with other creditors and ensures the principle of equality of creditors.

8. Under the Law, during the proceedings on the liquidation case, the debtor's activity may continue for a certain period of time. In this regard, a report on the debtor's activity must be submitted quarterly. Where losses have resulted from the debtor's activity for two consecutive reporting quarters, such activity is deemed economically inexpedient.

For example if at a manufacturing enterprise products made from raw materials are offered for sale but the funds received do not cover production costs or if an enterprise in the service sector continues its activity during liquidation but revenue from customers does not cover expenses for wages and rent then in such case given

the losses incurred from the activity for two consecutive reporting quarters the continuation of such activity is deemed economically inexpedient.

9. Part nine of this article establishes the rules for transitioning to the general procedure for the liquidation case. In this regard the court performs the following actions: first it establishes that conducting the proceedings on the liquidation case without terminating the debtor's activity has been deemed economically inexpedient; second it revokes the conduct of the proceedings on the liquidation case without terminating the debtor's activity; third it decides to transition to the general procedure for the liquidation case; fourth it indicates all the above-established circumstances and conclusions in the court ruling.

When issuing a ruling on this matter, the court must examine the accounting statements, audit opinions, financial analysis, and the liquidation manager's report and establish that even if the debtor's activity were to continue, there would be no possibility of emerging from the state of unprofitability.

This mechanism is applied for the purposes of ensuring an economically sound and fair direction of the liquidation process, preserving assets, and creating equal legal conditions for all creditors.

See also: International Commentary, p. 772.

Article 141. Consequences of the Commencement of Liquidation Proceedings

From the moment the court adopts a decision declaring the debtor bankrupt and commencing the liquidation proceedings:

transactions involving the alienation of the debtor's property or entailing the transfer of its property for use by third persons shall be permitted only in the procedure established by this chapter;

the term for performance of all monetary obligations of the debtor as well as deferred tax and duty obligations of the debtor shall be deemed to have arrived;

the accrual of penalties (fines, late-payment penalties) and interest on all types of the debtor's debt shall cease;

the accrual of property tax and land tax as well as late-payment penalties and fines on previously accrued and uncollected tax and duty obligations shall be suspended;

the portion of proceeds from the sale of the debtor's property directed toward repayment of debt shall be exempt from value added tax and income tax;

information on the debtor's financial condition shall cease to be classified as confidential, including as a commercial secret;

all restrictions on levying execution against the debtor's property shall be lifted;

enforcement of writs of execution shall cease. All claims under monetary obligations, tax and duty obligations and other property claims, except for claims to recognize title, compensate moral harm, recover property from

another person's unlawful possession, recover unjust enrichment, declare transactions invalid and apply the consequences of their invalidity as well as claims for current payments may be brought against the debtor only within the framework of the liquidation proceedings.

The right of a creditor as security for satisfaction of its claims does not extend to the fruits, products and income from the use of property provided as security for performance of the debtor's obligations before the commencement of the liquidation proceedings that are received after the commencement of such proceedings.

Writs of execution the enforcement of which ceased in accordance with paragraph nine of part one of this article are subject to transfer by state bailiffs to the liquidation manager in the procedure established by legislation. Performance of all of the debtor's obligations is permitted only within the framework of the liquidation proceedings.

From the moment the court adopts a decision declaring the debtor bankrupt and commencing the liquidation proceedings the governing bodies of the debtor are removed from performing the functions of managing and disposing of the debtor's property where such removal has not previously taken place the powers of the debtor's manager are terminated (the employment contract concluded with the debtor's manager is terminated) the administration of the debtor's affairs is vested in the liquidation manager and the powers of the owner to manage and dispose of the debtor's property are likewise terminated. The liquidation manager issues an order terminating the employment contract concluded with the debtor's manager or transferring the manager to other work.

The debtor's participants (founders) hold the rights of persons participating in the insolvency case during the liquidation proceedings in the cases established by this chapter.

The article under commentary establishes that, as a result of the debtor being declared bankrupt and the commencement of the liquidation case, all of the debtor's obligations and transactions are carried out exclusively within the framework of these proceedings. Its financial information loses its confidential status, the powers of the debtor's manager and governing bodies are terminated, and the administration of its affairs passes to the liquidation manager.

1. Part one of this article establishes that from the moment the court adopts a decision declaring the debtor bankrupt and commencing the liquidation case: transactions involving the debtor's property are permitted only in the procedure established by this chapter; all monetary obligations as well as tax and duty obligations are deemed to have arrived; accrual of penalties and interest ceases; accrual of late-payment penalties and fines on taxes and duties is suspended; funds received from the sale of property are exempt from value added tax and profit tax; financial information loses its confidential status; all restrictions relating to levying execution against the debtor's property are lifted; enforcement of writs of execution

ceases; and all property claims against the debtor are brought exclusively within the framework of the liquidation procedure (subject to certain exceptions).

1.1. The transfer of the debtor's property to another person means the transfer of property into the ownership of another person on the basis of contracts of sale, exchange, gift, and other transactions not prohibited by legislation.

The transfer of the debtor's property to third persons for use means providing property to other persons for temporary possession and use for a duty or providing it for use, as well as the transfer of property for temporary gratuitous use (loan for use).

Transactions entailing the transfer of the debtor's property to another person into ownership or for use may be concluded in the procedure provided for by Chapter 11 of the Law namely: first the conclusion of such transactions falls within the powers of the liquidation manager (Article 144 of the Law); second the property must be sold at auction in the form of an electronic online auction; third major transactions and interested-party transactions are concluded by the liquidation manager only with the consent of the meeting of creditors or the committee of creditors; fourth the procedure and time frame (schedule) for the sale of property must be approved by the meeting of creditors or the committee of creditors (Article 151 of the Law).

1.2. An obligation is a civil-law relationship under which the debtor is required to perform a certain action in favor of the creditor, namely to transfer property, perform work, render services, pay monetary funds and the like, or to refrain from performing a certain action while the creditor has the right to demand that the debtor perform its obligations (Article 234 of the CC).

The following taxes are established in the territory of the Republic of Uzbekistan: 1) value added tax; 2) excise tax; 3) profit tax; 4) tax on income of natural persons; 5) tax for use of subsoil; 6) special rent tax on extraction of minerals; 7) tax for use of water resources; 8) property tax; 9) land tax; 10) social tax (Article 17 of the Tax Code).

The following belong to the category of duties: 1) duty for entry into the territory of the Republic of Uzbekistan and transit through its territory of motor vehicles of foreign states; 2) duty for the right of movement on public roads of freight motor vehicles and trailers with a carrying capacity exceeding 10 tons; 3) duties for the right to sell alcoholic products including: duty for the right of retail sale of alcoholic products; duty for the sale of alcoholic products by public catering enterprises; 4) duty for the right to conduct retail trade in beer and beer beverages; 5) duty for the right to conduct retail trade in tobacco products (Article 455 of the Tax Code).

A tax payment deferral consists in changing the term for payment of the tax in question on condition of a lump-sum payment of the entire amount of the debt on that tax. A tax payment deferral may be granted with respect to the amount of debt that arose before the decision to grant the possibility of a tax payment deferral or the amount of debt that will arise in the future. Tax payment deferrals are granted for a term of no more than three years within the powers of state bodies (Articles 97-100 of the Tax Code).

This provision concerns only the performance of monetary obligations as well as the arrival of the terms for payment of taxes and duties in respect of which a deferral has been granted. Accordingly, the terms for performance of the debtor's other obligations are not deemed to have arrived.

1.3. A penalty is a sum of money established by legislation or a contract that the debtor is required to pay to the creditor in the event of non-performance or improper performance of an obligation. A penalty takes the form of a fine or a late-payment penalty. A penalty that the debtor pays in the event of non-performance or improper performance of obligations and that is, as a rule, calculated as a fixed sum of money is a fine. A penalty that the debtor pays for delay in performing an obligation and that is accrued as a percentage of the unperformed portion of the obligation for each day of delay is a late-payment penalty (Articles 260-261 of the CC).

For non-performance of a monetary obligation that is for the unlawful retention of another's monetary funds, evasion of their return, other delay in their payment, or unjustified receipt or saving of monetary funds at the expense of another person, interest on the amount of such funds must be paid for use of such funds (Article 327 of the CC).

This provision refers precisely to the aforementioned penalty and interest, the accrual of which ceases.

1.4. In this provision, special attention should be paid to two aspects: first, only the accrual of property tax and land tax shall be suspended while other taxes (profit tax social tax and others) do not fall within this exception; second, the accrual of previously calculated but not yet collected late-payment penalties and fines arising from existing obligations on all types of taxes and duties shall likewise be suspended.

This is introduced so that, by ceasing the arising of new tax obligations, an artificial increase in the tax burden on the debtor and a violation of equality among creditors is prevented. In practice, the tax authorities include the debtor's existing debts in the register and they are repaid from the liquidation estate in the established order of priority. Accordingly, this provision is aimed at protecting the rights of creditors and ensuring a fair distribution during the liquidation proceedings.

1.5. This provision indicates that the condition for exemption from value added tax and income tax is the direction of funds received from the sale of the debtor's property toward repayment of debt. Where the funds received are directed toward other purposes, this tax benefit does not apply.

This provision establishes a special taxation procedure during the liquidation proceedings. Upon the sale of the debtor's property the liquidation manager does not calculate or pay value added tax or income tax on the proceeds received; all monetary funds are directed straight toward satisfying creditors' claims; the tax authorities do not treat such funds as a tax base but recognize them as the subject matter of the insolvency procedure; in judicial practice this provision is applied as a means of ensuring equality among creditors and maintaining a balance between the state's tax interests and the interests of creditors.

1.6. This provision is one of the particular features of the liquidation proceedings. Ordinarily, the debtor's financial condition, its assets and liabilities, income and obligations are maintained as a commercial or official secret. However, from the commencement of the liquidation proceedings against a debtor declared bankrupt by the court, this information ceases to be classified as confidential and is subject to disclosure since under Article 23 of the Law, the liquidation manager is required to conduct an analysis of the debtor's financial condition and to provide information on the debtor's financial condition at a creditor's request within ten days. Furthermore, under Article 7 of the Law of the Republic of Uzbekistan "On Commercial Secrets," a court is permitted to use a commercial secret without restriction when it initiates an insolvency case against the owner of the commercial secret.

This, in turn, creates a possibility for creditors, state bodies, and the public to objectively assess the debtor's actual financial condition. As a result, the protection of creditors' interests as well as fair distribution and settlement is ensured during the liquidation proceedings.

It should be noted, however, that this provision concerns only information on the debtor's financial condition while the debtor's commercial secrets in the fields of science and technics, technology, production and other areas may remain confidential.

1.7. This provision provides for the lifting of all restrictions relating to levying execution against the debtor's property. This does not, however, mean that any creditor individually or jointly may levy execution against the debtor's property. In this case, what is provided for is the termination of all previously adopted measures to preserve property, since satisfaction of creditors' claims is carried out by the liquidation manager through the sale of property.

1.8. Under Article 39 of the Law of the Republic of Uzbekistan "On Enforcement of Judicial Acts and Acts of Other Bodies," the state bailiff, on the basis of a court ruling terminating enforcement proceedings, as well as a bailiff's decision terminating enforcement proceedings, revokes all enforcement measures it has ordered, including the seizure of property as well as restrictions established for the debtor. At the same time, the state bailiff withdraws collection orders issued against the debtor's accounts, and notifies in writing or electronically the bodies enforcing the restrictions of the revocation of such restrictions.

Also, under Article 62 of the Law referred to above, upon receipt of a copy of the economic court's decision declaring the legal entity debtor to be bankrupt and opening the liquidation proceedings, the state bailiff completes the enforcement proceedings except the proceedings for levying execution against pledged property recognizing title, compensating moral harm, recovering property from another person's unlawful possession, recovering unjustly acquired property and declaring transactions invalid, and applying the consequences of their invalidity. Simultaneously with terminating the enforcement proceedings, the state bailiff lifts

the seizures of the debtor's property and other restrictions relating to disposal of such property that it imposed during the enforcement proceedings.

Writs of execution in respect of which enforcement proceedings have been completed, together with a copy of the bailiff's decision completing the enforcement proceedings, are sent to the liquidation manager within three working days of the date the enforcement proceedings are completed. The state bailiff notifies the claimant of the sending of the writ of execution to the liquidation manager.

This provision is aimed at ensuring interaction between the court and the enforcement bodies, eliminating unnecessary duplication and ensuring equality of creditors, and preventing particular creditors from obtaining advantages. Accordingly, the debtor's property is concentrated in one place and directed toward fair distribution.

Where enforcement proceedings concern claims to recognize title, compensate moral harm, recover property from another person's unlawful possession, recover unjustly acquired property, declare transactions invalid and apply the consequences of their invalidity, as well as claims for current payments, the state bailiff continues to take measures to enforce the judicial act without terminating the enforcement proceedings.

2. This provision is established for the purpose of ensuring proportionate protection of creditors' interests during the liquidation proceedings. Where, before the commencement of these proceedings, the debtor transferred property as a pledge or other security for performance of its obligations, then after commencement of the proceedings, the fruits, products, or income received from such property are no longer directed exclusively toward repayment of the claims of that creditor. These funds are included in the general liquidation estate and distributed among all creditors in the order of priority established by the Law.

For example, where a debtor that is a transport company transferred buses as a pledge to secure a loan received from a commercial bank before the commencement of the liquidation proceedings and after commencement of the liquidation proceedings, income was received from using the pledged buses to render passenger transportation services in such case the income received is not directed toward repayment of the loan debt but is included in the liquidation estate and distributed in proportion to the claims of all creditors.

3. In view of the fact that the Law establishes that all claims under monetary obligations, taxes and duties, as well as other property claims, may be brought against the debtor only within the framework of the liquidation proceedings, enforcement of writs of execution ceases. Accordingly, writs of execution must be transferred by state bailiffs to the liquidation manager in the procedure established by legislation.

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41. Under **paragraph nine of part one of Article 141** of the Law, from the moment the court adopts a decision declaring the debtor bankrupt and opening the liquidation proceedings, enforcement of writs of execution ceases. Writs of execution are subject to transfer by state bailiffs to the liquidation manager in the procedure established by legislation. Writs of execution for the collection of court costs are likewise sent by the court to the liquidation manager.

This rule is introduced so that creditors' claims are satisfied through a single system fairly and in compliance with the established order of priority. If each creditor were to continue enforcement proceedings independently, a prior pledgee or a "stronger" creditor could be the first to receive monetary funds, while the rest could be left entirely without satisfaction of their claims.

For example, where the tax authorities issued a writ of execution to collect debt of 1 billion soums from the debtor and a bank also brought a claim of 5 billion soums on the basis of a loan agreement, if both were to independently carry out enforcement and seizure of property, this would violate the rights of other creditors. Therefore, all writs of execution are transferred to the liquidation manager, who includes them in the general register. Notwithstanding this, if a state bailiff begins directly collecting monetary funds from the debtor's account, this shall be deemed a violation of the law since payments must now be made only within the framework of the liquidation proceedings and in accordance with the established order of priority.

4. Part four of this article establishes that from the moment the court adopts a decision declaring the debtor bankrupt and commencing the liquidation proceedings the debtor's governing bodies (for example in a joint-stock company the general meeting of shareholders the supervisory board and the executive body—the director or chairman of the board—being the governing bodies of the company) are removed from performing the functions of managing and disposing of the debtor's property (in particular the payment of dividends; concluding transactions involving the lease pledge sale gift gratuitous transfer for use or other disposal of such property) where they have not previously been removed (during judicial rehabilitation or external management) and the powers of the debtor's manager are terminated. From that moment, the debtor's governing bodies are not entitled to conclude any transactions involving property, sell assets. or assume obligations on behalf of the debtor.

During the liquidation proceedings, the administration of the debtor's affairs is vested in the liquidation manager. This means that the liquidation manager is the sole person authorized to perform the functions of managing and disposing of the debtor's property.

Furthermore, the powers of the owner to manage and dispose of the debtor's property are terminated. In this regard, shareholders as owners retain the right to hold their shares, but their right to influence the management process (for example, to convene a general meeting, adopt decisions, participate in determining dividends) is terminated directly since at this stage the debtor's principal task is not to make a profit but to eliminate debt and satisfy the interests of creditors.

One of the duties imposed by the Law on the liquidation manager is to issue an order terminating the employment contract concluded with the debtor's manager or transferring the manager to other work.

Termination of an employment contract means the termination of the individual labor relationship between an employee and an employer on the grounds provided for by the Labor Code. In this case the grounds for termination of the employment contract may be found in paragraph 11 of part two of Article 155 of the Labor Code: "grounds provided for in the employment contract in cases where this Code or other laws establish the possibility of providing in employment contracts with particular categories of employees a condition on additional grounds for termination of the labor relationship" (Article 155 of the Labor Code).

Where an employee continues to work for the same employer, a change in the employee's labor functions is deemed a transfer of the employee to other work (Article 138 of the Labor Code).

Termination of the employment contract is carried out by persons having the right to hire (under the requirements of this provision, such a person is the liquidation manager) and is formalized by an order of the employer (the liquidation manager). The last working day is the day the employment contract is terminated. Where the last working day falls on a day off, a non-working holiday, or another non-working day, the last working day is deemed to be the first working day following it. In the employer's order the grounds for termination of the employment contract must be indicated in exact accordance with the wording of the articles (paragraphs) of the Labor Code or other regulatory legal acts on labor with a reference to the corresponding article (paragraph) of the Labor Code or the relevant law (part four of Article 141 of the Law) (Article 155 of the Labor Code).

5. Part five of this article establishes that the debtor's participants (founders) hold the rights of persons participating in the insolvency case in accordance with Chapter 11 of the Law that is during the liquidation proceedings.

For example under part four of Article 150 of the Law the claims of shareholders for accrued dividends are satisfied in the third order of priority while under part nine of this article the founders (participants) of the debtor being liquidated have the right to receive the residual value of property after satisfaction of creditors' claims and after payment of the expenses of the insolvency case proceedings as well as property remaining unsold during liquidation.

These provisions ensure transparency, fairness and lawfulness of the liquidation proceedings and also serve to exercise collective oversight over the distribution of property.

See also: International Commentary, p. 773.

Article 142. Liquidation Manager

Upon adopting a decision declaring the debtor bankrupt, the court appoints a liquidation manager in the procedure provided for the appointment of an external manager. Where an enterprise, a portion of whose charter fund (charter capital) belongs to the state, is declared bankrupt the authorized state body may also submit a candidacy for liquidation manager.

The article under commentary establishes the procedure for the appointment of a liquidation manager by the court.

The liquidation manager is a judicial manager, a person appointed by the court to conduct the liquidation proceedings applied with respect to a debtor that is a legal entity.

The principal requirements imposed on a judicial manager established by Articles 22, 23, 25 and 26 of the Law, the manager's rights and duties, liability and the conditions for payment of remuneration also apply to the liquidation manager.

The procedure for submitting a candidacy for the position of liquidation manager is carried out on the basis of the provisions of Article 111 of the Law, which provides for the procedure for submitting a candidacy for an external manager. In this regard, a candidacy for liquidation manager may be proposed to the meeting of creditors by any creditor or the authorized state body. The meeting of creditors approves the candidacy for liquidation manager, and the candidacy of the person who has received the greatest number of creditors' votes is proposed to the court.

Where the court introduces the liquidation proceedings in the absence of a decision of the meeting of creditors to apply to the court with a petition to declare the debtor bankrupt and commence the liquidation proceedings, the meeting of creditors is entitled to consider, approve, and submit to the court a candidacy for liquidation manager within three weeks of the date the court issues a ruling introducing the liquidation proceedings.

Where a candidacy for the position of liquidation manager is not submitted by the meeting of creditors, it is submitted by the authorized state body and the court appoints the liquidation manager from among the candidacies proposed.

The liquidation manager is appointed by the court simultaneously with the introduction of the liquidation proceedings. Where this is not possible, the court appoints the liquidation manager within one month of the introduction of the liquidation proceedings.

The court issues a ruling on the appointment of the liquidation manager. A court ruling on the appointment of the liquidation manager is subject to immediate execution and may be appealed against (a protest may be lodged against it).

This article separately emphasizes that where an enterprise, a portion of whose charter fund (charter capital) belongs to the state, is declared bankrupt, the authorized state body, namely the Agency, is also entitled to submit a candidacy for the position of liquidation manager. This rule is aimed at protecting state interests and ensuring the transparency of the liquidation process for enterprises with state participation.

This article establishes the procedure for appointing the liquidation manager and sets out important guarantees relating to the manager's identity, qualifications and powers. The liquidation manager appointed by a court decision is the central participant in the liquidation proceedings, and the manager's activity is of decisive importance for the sale of the debtor's property, satisfaction of creditors' claims and fair distribution.

Article 143. Publication of Information on the Debtor Being Declared Bankrupt and the Commencement of Liquidation Proceedings

Publication of information on the debtor being declared bankrupt and the commencement of the liquidation proceedings is carried out by the liquidation manager in the procedure provided for by Articles 53 and 54 of this Law.

The publication of information on the debtor being declared bankrupt and the commencement of the liquidation proceedings must contain:

the name (surname, first name and patronymic) and other particulars of the debtor;

the name of the court before which the insolvency case is pending and the case number;

the date the court adopted the decision declaring the debtor bankrupt and commencing the liquidation proceedings;

the term established for bringing creditors' claims which may not be less than one month from the date of the publication in question;

its location (postal address) and email address (if any) for creditors to submit their claims against the debtor;

information on the liquidation manager.

Information on the debtor being declared bankrupt and the commencement of the liquidation proceedings must be sent by the liquidation manager for publication in the mass media no later than ten days from the moment of the manager's appointment.

The article under commentary establishes that information on the debtor being declared bankrupt and the introduction of the liquidation proceedings must be published by the liquidation manager in the mass media after the court adopts its decision and also determines that the content of the notice must indicate the principal

information on the debtor and the court, the term for bringing creditors' claims, and information on the liquidation manager.

1. The liquidation manager is required to publish in the mass media information on the debtor being declared bankrupt and the commencement of the liquidation proceedings. The list of mass media outlets in which such information must be published, the frequency and term for publishing such information, the cost of the services rendered and the financing procedure are determined by the Cabinet of Ministers.

Under Resolution of the Cabinet of Ministers No. 160 of 11 June 2009 the Agency, the Tax Committee and the Agency of Information and Mass Communications have designated the economic newspaper Biznes-Daily "Birzha" and (or) the official website of the Agency as the mass media in which insolvency information is published. Information on judicial acts and the liquidation proceedings may also be published in other mass media.

2. Part two of this article establishes what information must be contained in the notice on the debtor being declared bankrupt and the commencement of the liquidation proceedings. This requirement is mandatory for the liquidation manager, although other information on the liquidation proceedings may also be included in the notice. For example where the number of the debtor's creditors exceeds fifty persons or their number cannot be determined information on the commencement of each insolvency procedure applied with respect to the debtor must also be published in the mass media (part three of Article 54 of the Law).

One of the principal items of information that creditors should pay attention to in the notice is the term for bringing creditors' claims established by the liquidation manager. This term may not be less than one month from the date of publication of this notice.

This information is provided for the purpose of fully informing creditors and interested persons of the liquidation proceedings.

3. Part three of this article establishes the liquidation manager's duty to send for publication in the mass media information on the debtor being declared bankrupt and the commencement of the liquidation proceedings no later than ten days from the date of the manager's appointment. This ten-day term differs from the requirement indicated in part two of Article 53 of the Law under which a judicial manager is required to send the notice to the mass media outlet within three days of the date of receipt of the corresponding judicial act.

For non-performance or improper performance of this duty, the liquidation manager bears liability in accordance with legislation (Article 21 of the Law).

In particular, where information on the debtor being declared bankrupt and the commencement of the liquidation proceedings has been submitted by the liquidation manager to the newspaper "Birzha" it is published in the following order:

the newspaper "Birzha" is distributed throughout the territory of the Republic of Uzbekistan in a print run of no less than 1000 copies and ensures weekly publication

of insolvency information. The texts of insolvency information are published in the state language and may be translated into other languages;

the newspaper "Birzha" publishes insolvency information within three days of receiving it from interested persons and after full payment of the cost of publication;

it ensures the posting of insolvency information on the website of the newspaper "Birzha" without charging an additional duty as well as free access to the information posted on the website.

The liquidation manager may also post, free of charge, on a dedicated page of the official website of the Agency the insolvency information subject to publication through the manager's personal account using the manager's electronic digital signature.

The provisions established by this article define the legal mechanisms for publishing information during the process of the debtor being declared bankrupt and the liquidation proceedings. This provision strengthens the liability of the liquidation manager, raises the level of information available to creditors and helps to ensure fairness, openness and legal certainty in the liquidation proceedings.

Article 144. Rights and Duties of the Liquidation Manager

From the day of the appointment of the liquidation manager, all powers to administer the debtor's affairs and dispose of the debtor's property pass to the liquidation manager.

The liquidation manager is entitled to:

dispose of the debtor's property in accordance with Article 118 of this Law;

terminate employment contracts concluded with employees, including with the debtor's manager;

refuse to perform the debtor's contracts in the procedure established by Article 119 of this Law;

obtain loans to finance current expenses relating to the liquidation proceedings by agreement with the meeting of creditors;

bring claims to declare invalid transactions made by the debtor where there are grounds provided for by legislation;

make use of state services including those rendered through public service centers without advance payment;

carry out the preparation and re-preparation for state registration of cadastral documents on the debtor's immovable property without advance payment;

use reports, audit reports and other materials relating to the debtor enterprise's financial and business activity that are available to the state tax service authorities;

bring claims against persons who bear subsidiary liability for the debtor's monetary obligations and (or) taxes and duties in connection with having brought the debtor to insolvency. The amount of such claims is determined on the basis of the difference between the amount of creditors' claims and the liquidation estate. The amounts collected are included in the liquidation estate

and may be used only to satisfy creditors' claims in the procedure established by Articles 149, 150 and 185 of this Law.

The liquidation manager may also have other rights in accordance with legislation.

The liquidation manager is required to:

take charge of the debtor's property, conduct an inventory of it and organize an appraisal of it and take measures to preserve it;

analyze the debtor's financial condition;

convene the meeting of creditors and the committee of creditors;

take measures to collect debt owed to the debtor;

protect the rights and legitimate interests of the debtor's employees upon the debtor's liquidation and notify them of the forthcoming termination of the employment contracts concluded with them;

maintain the register of creditors' claims and consider their claims;

provide information on the debtor's financial condition and (or) the manager's own activity at a creditor's request within ten days;

take measures aimed at searching for, identifying and recovering the debtor's property held by third persons;

transfer for safekeeping the debtor's documents subject to mandatory retention.

The liquidation manager may also bear other duties in accordance with legislation.

The debtor's governing bodies (the external manager) shall, within three working days of the date of appointment of the liquidation manager, ensure the transfer of the debtor's accounting and other documentation, seals and stamps (where seals and stamps exist) and material and other valuables to the liquidation manager. Where this duty is evaded, the debtor's governing bodies (the external manager), including the manager of the debtor that is a legal entity and the debtor that is an individual entrepreneur, bear liability in accordance with legislation.

The article under commentary defines the rights and duties of the liquidation manager, granting the manager the powers to manage the debtor's property, conduct an inventory and appraisal, organize settlements with creditors, bring claims against persons who brought the debtor to insolvency, and receive, retain, and provide all documents and information relating to the debtor's activity.

1. Under the Law, from the moment the court declares the debtor bankrupt, its governing bodies (for example, in a joint-stock company, the supervisory board and the director (chairman of the board), and in a limited liability company the meeting of participants and the director) lose their powers. All the managerial functions and the functions of disposing of property that they performed pass from that moment to the liquidation manager. This ensures the centralization of liability in respect of property, equal protection of creditors' interests and the prevention of uncontrolled expenditure of property during liquidation.

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41. From the day of the appointment of the liquidation manager all powers to administer the debtor's affairs and dispose of the debtor's property pass to the liquidation manager.

Accordingly the debtor's governing bodies (the external manager), including the manager of the debtor that is a legal entity and the debtor that is an individual entrepreneur, shall, within three working days of the date of appointment of the liquidation manager, ensure the transfer of the debtor's accounting and other documentation, seals and stamps (where seals and stamps exist) and material and other valuables to the liquidation manager **(part six of Article 144 of the Law).**

2. Part two of this article establishes the rights of the liquidation manager, which are of significant importance in the legal regulation of the debtor's property, labor and contractual relations after the debtor is declared bankrupt.

2.1. The liquidation manager has the right to sell, lease, or otherwise realize and dispose of property. This activity is carried out only by the liquidation manager in the procedure established by Article 118 of the Law, that is, the conclusion of major transactions and interested-party transactions is permitted only with the consent of the meeting of creditors or the committee of creditors, while in all other cases the right to manage the debtor's property is exercised exclusively in the procedure established by legislation.

2.2. The liquidation manager has the right to terminate employment contracts with all of the debtor's employees, including its manager. The purpose of this provision is to ensure the complete termination of the debtor's activity and prevent the arising of new obligations. In this regard, the guarantees provided for by the Labor Code (for example, two months' notice of dismissal, compensation payments) must be observed.

2.3. The liquidation manager is entitled to refuse to perform contracts concluded by the debtor before the initiation of the insolvency case only with respect to contracts that have not been performed or have been performed only in part where one of the following circumstances is present: first performance of the contracts causes losses to the debtor or (and) infringes the rights and legitimate interests of the debtor or creditors as compared with similar contracts concluded under comparable circumstances; second the contract is long-term (concluded for a term of more than one year) or is aimed solely at producing positive results for the debtor in the long term; third the contract provides for satisfaction of the claims of one creditor on more favorable terms as compared with the claims of other creditors; fourth there are other circumstances impeding the restoration of the debtor's solvency.

In such cases, the contract is deemed terminated from the moment all parties to the contract receive the liquidation manager's notice refusing performance of the contract.

2.4. Current expenses arise during the liquidation proceedings—audit, appraisal, advertising, legal services and other costs—for which monetary funds are required. For these purposes, the liquidation manager may obtain a loan with the consent of the meeting of creditors. Expenses relating to the repayment of amounts of such a loan are treated as claims for current payment obligations and are satisfied outside the order of priority.

2.5. Where before the onset of insolvency the debtor unjustifiably transferred its property to other persons or concluded transactions with interested persons for the purpose of concealing debt, the liquidation manager may apply to the court with a claim to declare such transactions invalid. This is an important guarantee for the protection of creditors' interests.

2.6. The liquidation manager may receive state services (for example, cadastral, registration, archival, statistical and other services) without advance payment. This benefit is introduced to prevent the liquidation process from being suspended and to expedite it.

2.7. The liquidation manager may carry out the preparation and re-issuance of cadastral documents on the debtor's immovable property and carry out work on its state registration. This is of particular importance for the sale or realization of immovable property as well as for the correct legal formalization of the corresponding documents.

2.8. The liquidation manager has the right to examine the reports, audit reports and financial documents held by the tax authorities. Through this, the manager determines the debtor's actual financial condition and formulates the liquidation plan on a sound basis.

2.9. Under the Law, where the insolvency of a legal entity has arisen as a result of unlawful acts of a founder, owner or managing person, they bear subsidiary liability for the debtor's obligations in the event of insufficiency of the debtor's property.

The establishment of this provision has the following significance.

Firstly, the liquidation manager has the right to bring a claim to hold liable on a subsidiary basis the persons who brought the debtor to a state of insolvency (for example a founder, manager or members of a governing body). This right is exercised only within the framework of the insolvency procedure, and its principal purpose is to compensate the interests of creditors where the debtor's property is insufficient.

Secondly, the amount of the claim is determined on the basis of an objective economic calculation—that is, the difference between the total amount of creditors' claims and the monetary funds actually available in the liquidation estate is established. This is an important criterion ensuring the transparency and accountability of the liquidation manager's activity.

Thirdly, the monetary funds collected are included in the liquidation estate, that is, they are distributed to satisfy creditors' claims in the established order—in accordance with the order of priority provided for by Articles 149, 150, and 185 of the Law. This ensures the implementation of the principles of property fairness and equality in the insolvency proceedings.

Accordingly, this provision presents the liquidation manager not only as a person who distributes property but also as an active party ensuring fair compensation, and it guarantees the legal stability of the insolvency system.

3. In addition to the rights established by part two of this article, the liquidation manager may have other rights in accordance with legislation. Since there are many changing factors (economic, legal and social) in the liquidation proceedings, it is not possible to list all of them exhaustively in the law. For this reason, the expression "other rights" grants the liquidation manager sufficient latitude to carry out activity within the framework of the law in particular situations. This provision ensures correspondence between "general provisions" and "special provisions" in the legal system.

For example, where the liquidation manager files a statement of claim with the court, the manager may exercise all the rights of a claimant within the framework of judicial proceedings. Such rights of the liquidation manager include: examining the case materials, obtaining extracts and copies from them, filing an application for recusal, presenting evidence, participating in the examination of evidence, putting questions, filing petitions, filing applications, providing the court with oral and written explanations, presenting the manager's arguments and conclusions on all issues arising during consideration of the case, raising objections to the petitions and arguments of other persons participating in the case, appealing against judicial acts and other procedural rights.

In practice, this provision serves to enhance the efficiency of the liquidation proceedings, ensure a balance between the interests of creditors and debtors, and strengthen the rule of law.

4. During the liquidation proceedings, the liquidation manager bears responsibility for carrying out all organizational, financial and legal measures aimed at receiving, preserving, appraising and collecting the debtor's property and satisfying creditors' claims.

4.1. This provision establishes the principal and initial duty of the liquidation manager in the liquidation proceedings.

Firstly, after the debtor is declared bankrupt, the powers to manage its property pass to the liquidation manager. Accordingly, the manager is required to take into the manager's charge all assets (buildings and structures, equipment, monetary funds in settlement accounts, goods and other property). This prevents the risk of concealment or loss of property.

Secondly, the property taken into charge is subject to an inventory in which each asset is identified and documented. This process serves as the principal source for

forming the liquidation estate and subsequently ensures an accurate calculation when satisfying creditors' claims.

Thirdly, the liquidation manager organizes an appraisal of the property, in which its market value is determined through the engagement of independent appraisers. This is an important legal guarantee for the protection of creditors' interests since it is precisely through a fair appraisal of the property that the degree of satisfaction of their claims is determined.

Finally, the liquidation manager is required to take measures to ensure the preservation of the property, that is to carry out the storage, protection, insurance, or guarding of documents, objects, and assets.

Accordingly, this provision serves to implement the principle of preserving and accounting for property in the activity of the liquidation manager and also ensures economic fairness and transparency in the liquidation proceedings.

4.2. This provision establishes the function of economic analysis and financial oversight in the liquidation manager's activity.

Firstly, for the liquidation proceedings to be conducted effectively, it is necessary to determine the debtor's actual financial condition. Therefore, the liquidation manager is required to conduct a full analysis of the debtor's accounting documents, balance sheet, financial statements, accounts payable and receivable, and the structure of assets and liabilities.

Secondly, through this analysis, the reasons that brought the debtor to insolvency may be identified, in particular unlawful acts or ineffective managerial decisions, excessive obligations or loss-making transactions. This information is subsequently of significant importance in establishing subsidiary liability.

Thirdly, the results of the financial analysis serve as grounds for adopting strategic decisions during the liquidation proceedings: realizing assets, determining the order of priority for satisfying creditors' claims and taking measures to preserve the debtor's property.

Fourthly, this provision requires the liquidation manager not only to manage property but also to actively perform the functions of an economic analyst, that is, to make all decisions on the basis of precise calculations and analysis.

4.3. This provision establishes a democratic and oversight mechanism ensuring the participation of creditors in the liquidation proceedings.

Firstly, creditors are the principal participants in the liquidation proceedings and their interests must be fully protected during the liquidation procedure. Accordingly, the liquidation manager is required to convene the meeting of creditors through which they receive information on the progress of the case, the state of the debtor's property, the procedure for its realization and distribution issues, and also have the opportunity to express their views.

Secondly, a committee of creditors may be formed at the meeting of creditors. This committee exercises continuous oversight of the liquidation manager's activity,

examines the liquidation plan and provides its opinions on important issues. In practice, this ensures the principle of collective oversight and transparency.

Thirdly, the liquidation manager's organization of the activity of such a meeting and committee prevents unilateral decisions from being made, so that creditors also participate in decision-making as equal participants in the liquidation process.

Finally, this provision ensures accountability, transparency and a balance of interests in the liquidation proceedings. The liquidation manager is required to remain in continuous interaction with creditors, take their decisions into account and thereby ensure a lawful and fair resolution of the case.

In summary, this provision presents the liquidation manager not merely as a technical executor but as an accountable and transparent liquidation manager working in cooperation with creditors.

4.4. This provision establishes the procedure for the liquidation manager to exercise legal claims against the debtor's debtors during the liquidation proceedings.

Firstly, a debtor declared bankrupt may itself be a creditor with respect to other persons. In such a case, the liquidation manager is required to take measures to collect debt from the debtor's debtors, that is the manager takes lawful measures to recover monetary funds, property, or other obligations belonging to the debtor.

Secondly, collection measures may be carried out not only on a voluntary basis but also through judicial proceedings. Where the debtor's debtor refuses to make payment or fails to perform an obligation the liquidation manager is entitled to apply to the court with a statement of claim. In this case, the manager acts on behalf of the debtor, and the monetary funds collected are included in the liquidation estate.

Thirdly, this provision requires the liquidation manager to act not merely as an accountant or technical executor but as an active party in legal and economic terms. The manager must gather evidence during collection, analyze documents, and adopt decisions that protect the interests of creditors.

Fourthly, this provision creates a principal source for satisfying creditors' claims since the monetary funds collected from the debtor's debtors increase the liquidation estate, which makes it possible to satisfy creditors' claims more quickly and in full.

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43.1. Under the Law the liquidation manager must take measures to collect accounts receivable.

Courts should be advised that the right to collect accounts receivable may be realized at an auction in the form of an electronic online auction.

Where the right to collect accounts receivable was offered for sale but was not realized during the liquidation proceedings it is offered by the liquidation manager to creditors for acceptance in discharge of accounts payable. Where creditors

consent to accept this right in discharge of accounts payable the right to collect accounts receivable passes to the creditors on the basis of an agreement on assignment of the right of claim (Chapter 23 of the Civil Code).

4.5. This provision serves as a social and legal guarantee during the liquidation proceedings, ensuring the protection of the labor rights of the employees of the debtor organization.

Firstly, upon liquidation of the debtor organization, its activity is terminated, and accordingly the employment contracts concluded with it are also terminated. Accordingly the liquidation manager assumes the duty to protect the rights and legitimate interests of employees on the basis of labor legislation and state legal norms. This is not only an economic but also a social responsibility.

Secondly, the manager is required to notify employees in advance, that is, to send them official notices within the established time frame of the forthcoming termination of employment contracts. This gives employees the opportunity to exercise their labor rights, find new employment, or obtain state assistance.

Thirdly, the liquidation manager must make all settlements relating to labor relations in full, including wages, compensation, payment for leave, unpaid amounts, and other payments. This is among the claims satisfied in the first order of priority before satisfying creditors' claims (Article 149 of the Law).

Fourthly, this provision in the insolvency proceedings is aimed not only at protecting the interests of creditors but also at ensuring social fairness with respect to employees, reflecting the state's socially oriented policy.

In summary, this provision implements the principle of taking the human factor into account and respecting labor rights in the liquidation manager's activity and also ensures the lawful, good-faith, and socially fair conduct of the liquidation process.

4.6. Maintaining the register of creditors' claims is one of the liquidation manager's responsible duties and serves as a guarantee of creditors' trust and their legal protection.

This provision establishes a mechanism for ensuring creditors' rights and the systematic accounting of their claims during the liquidation proceedings.

Firstly, the principal purpose of the liquidation proceedings is to satisfy creditors' claims out of the debtor's property. Therefore, the liquidation manager is required to maintain the register of creditors' claims, that is to accept the claims of each creditor, determine their validity, the grounds for their arising and their amount, and include them in a single register. This register is the principal financial document of the liquidation process.

Secondly, the liquidation manager must consider the claims submitted by creditors in the procedure and within the time frame established by legislation. During this process, the manager verifies the authenticity of the documents, the grounds for the debt arising, and the lawfulness of the amount of the claims asserted.

Where a claim is unsubstantiated, the manager decides to refuse to recognize it or to recognize it in part.

Thirdly, the register establishes the order of priority of claims (in the first order, payments to employees; then tax and other obligations; after which, the claims of other creditors). Such an order ensures equal and fair distribution among the interests of creditors.

Fourthly, this provision requires the liquidation manager to have a high level of responsibility, legal competence and objectivity since the correct maintenance of the register is the basis for the lawful satisfaction of creditors' claims.

4.7. This provision establishes the liquidation manager's duty of reporting and of ensuring transparency. In this regard the manager is not entitled to conceal from creditors information on the financial condition of the debtor declared bankrupt and undergoing the liquidation proceedings.

Firstly, the liquidation manager's provision of information on the debtor's financial condition and activity at creditors' request is the manager's lawful duty. This requirement is aimed at ensuring the transparency of the liquidation process and protecting creditors' rights.

Secondly, the Law establishes a specific 10-day term for providing information. This term is introduced to prevent delays in the liquidation manager's activity or instances of concealment of information.

Thirdly, this information must reflect the debtor's financial statements, information on assets and liabilities, accounts receivable and payable, current payments, the state of property, and other economic indicators. At the same time, where the debtor's activity has not been terminated, information on the production or trading activity being carried out by it may also be included.

Fourthly, this provision allows creditors to obtain a genuine and objective picture of the progress of the liquidation proceedings and of how effectively the debtor's property is being used. This gives creditors the opportunity to actively participate in protecting their claims within the framework of the law.

Fifthly, where the liquidation manager fails to provide information within the established term or provides it incompletely this may constitute grounds for the court or authorized bodies to conduct an inspection of the manager's activity. Where necessary the question of replacing the manager or holding the manager liable may also be considered.

4.8. The liquidation manager's duty indicated in this provision is aimed at implementing an important legal requirement that prevents instances of concealment, loss or transfer of property to other persons during the liquidation proceedings. This provision guarantees the full accounting of the debtor's property and ensures the interests of creditors.

Firstly, the liquidation manager is required to identify the debtor's property not only from its balance sheet or accounting data but also assets held by third persons,

transferred for temporary use or unlawfully seized, and to take measures for their return.

Secondly, the liquidation manager sends requests to state bodies (tax authorities, banks, cadastral bodies, notarial bodies and others) to search for property; demands that debtors return property belonging to the debtor; where necessary, applies to the court with a claim and takes measures to collect or recover property.

Thirdly, where the liquidation manager fails to perform this duty or fails to take sufficient measures this is treated as a deficiency in the manager's activity. The court or the authorized body may refuse to approve the manager's report or replace the liquidation manager.

4.9. This provision is one of the liquidation manager's important legal duties and establishes the duty to ensure the preservation of the debtor's document flow, reporting and legal evidence.

Firstly, the liquidation manager is required to take charge of the accounting, financial, contractual, personnel, and legal documents relating to the debtor's activity, ensure their preservation, and transfer them in the established procedure to the archive or the relevant state bodies. This preserves information on all stages of the debtor's activity.

Secondly, the documents subject to preservation include: accounting statements, balance sheets, tax returns; contracts concluded and materials relating to their performance; documents on settlements with creditors and debtors; employees' personal files, orders, employment record books; title documents for property (cadastral documents, notarial records, licenses and the like); information in electronic form (information on accounts, databases, applications and other documents).

Thirdly, the principal purpose of this requirement is to ensure legal transparency and the responsible conduct of the liquidation proceedings namely: preventing the loss of evidence during subsequent financial inspections or judicial oversight; preserving a reliable source of information for state bodies (tax authorities, archives, the court, the prosecutor's office); ensuring the possibility of identifying violations of legislation if they occurred in the debtor's activity.

Fourthly, where the liquidation manager loses documents, fails to transfer them, or formalizes their transfer late, this may entail administrative or property liability. In such case the court may refuse to accept the manager's report or replace the manager.

Fifthly, upon accepting the documents the liquidation manager must draw up a special register or transfer certificate. The documents are arranged in accordance with archival requirements and transferred within the established time frame to the state archive or the debtor's legal successor.

5. The liquidation manager is not limited to performing only the duties indicated in part four of this article. The legislator links the manager's activity to the broader legal system, also imposing on the manager duties arising from other regulatory legal

acts. This provision is based on the principle of the rule of law and defines the liquidation manager as a responsible person not only in economic matters but in all spheres of social, financial and legal relations.

In practice, the liquidation manager's other duties arise from a number of legislative acts. In particular the Constitution of the Republic of Uzbekistan (Articles 15 and 65) imposes on the manager the duty to act within the framework of the law and ensure the inviolability of property; the EPC determines the manager's accountability to the court and compliance with procedural rules; the Law of the Republic of Uzbekistan "On Accounting" imposes the duty to ensure the full maintenance of accounting records and the provision of financial statements; the Labor Code requires the protection of employees' rights during the liquidation proceedings; the Law of the Republic of Uzbekistan "On Archival Matters" establishes the duty to transfer the debtor's documents to the state archive. Furthermore, the Tax Code and the CC define the liquidation manager as the person responsible for financial reporting to the state budget and creditors.

Accordingly, this provision takes the liquidation manager's legal status beyond that of a mere "executor." The manager must act as a responsible person accountable to the court, ensuring the protection of state interests and compliance with creditors' interests. At the same time, this provision reflects the development of legislation in accordance with contemporary requirements for the liquidation proceedings: as economic relations develop, the duties of the liquidation manager also expand.

6. Part six of this article serves as an important procedural rule ensuring accountability, lawfulness and transparency in the liquidation proceedings. Its content is that for the liquidation manager to begin activity effectively the manager must be timely provided with the documents and material assets that fully reflect the debtor's financial and legal condition.

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41. Where there is evasion of performance of the duties provided for in paragraphs three and four of this item the liquidation manager is entitled to apply to the court with an application to impose on the debtor's governing bodies (the external manager) that is a legal entity and the debtor that is a natural person the duty to transfer the property and documents provided for by **part six of Article 144** and part six of Article 219 of the Law. Such an application of the liquidation manager should be considered no later than the day following its receipt by the court, without notifying the persons participating in the case, and a ruling should be issued based on its results.

Execution of the court ruling is carried out by the corresponding division of the Compulsory Enforcement Bureau under the Prosecutor General's Office of the Republic of Uzbekistan on the basis of a writ of execution issued by the court.

Under the Law, from the moment of the liquidation manager's appointment, the debtor's governing bodies (or the external manager) are required within three working days to transfer to the manager all financial, accounting and legal documents, seals and stamps, and material assets (property, fixed assets, cash funds, and the like). This term is strictly established, and its violation is treated as an artificial delay of the liquidation process.

In such a case, the court, upon the liquidation manager's petition, may decide to demand the documents by way of compulsion or to hold the person at fault liable.

The Law provides for liability measures in accordance with legislation for non-performance of this duty.

This provision is aimed at ensuring the effective commencement of the liquidation manager's activity, protecting the interests of creditors and eliminating instances of concealment of property.

See also: International Commentary, p. 775.

Article 145. Liquidation Plan

The liquidation plan must reflect:

information on the debtor's financial condition;

the conditions, procedure, order of priority and proportionality of satisfying creditors' claims;

account being taken of the interests of the owner of the debtor's property and of the workforce;

a list of the property subject to sale;

the date, time, place and method of sale of the property;

the conditions for payment of court costs, the liquidation manager's remuneration and the activity of experts and other persons.

The liquidation plan must be agreed with the meeting of creditors and is deemed approved where it is supported by creditors representing no less than two-thirds of the amount of claims. Where the liquidation plan is not approved and the creditors have not submitted their own liquidation plan within the established term the liquidation manager approves the manager's own plan.

Where the debtor itself is the initiator of the insolvency case, the debtor is entitled to submit its own liquidation plan.

The sale of property and satisfaction of creditors' claims brought against the debtor are carried out on the basis of the liquidation plan in the procedure established by Articles 149, 150, 154 and 185 of this Law.

The article under commentary establishes the liquidation plan which indicates the debtor's financial condition, the procedure for realizing property and the conditions for satisfying creditors' claims. This plan is approved on the condition that it is supported by the meeting of creditors by no less than two-thirds of the votes,

and that, on its basis, the sale of property and the discharge of the debtor's obligations are ensured.

1. This provision defines the content and structural elements of one of the most important stages of the liquidation process, the liquidation plan. The liquidation plan is a comprehensive document providing for the identification, appraisal and realization of all the debtor's financial resources as well as the direction of the funds received from this toward satisfying creditors' claims. Each element established by this provision is aimed at ensuring lawfulness, openness and fair distribution during the liquidation proceedings.

Firstly, information on the debtor's financial condition is a principal part of the liquidation plan. This information allows the liquidation manager, creditors and the court to determine the debtor's actual degree of solvency, correctly appraise the property and ensure the fair satisfaction of creditors' claims.

Secondly, by clearly defining the conditions, procedure, order of priority and proportions for satisfying creditors' claims the rights of all interested persons are guaranteed. This is a principal criterion of fairness in the practice of the economic courts and ensures equal treatment of all of the debtor's creditors.

Thirdly, the provision separately emphasizes that account be taken of the interests of the owner of the debtor's property and of the workforce. On the one hand, this serves to protect the rights of the owner of the property, and on the other hand, to preserve the social guarantees of employees.

Fourthly, indicating in the liquidation plan the list of property subject to sale, the date, time, place and method of its realization ensures economic certainty and transparency. This prevents instances of the property being undervalued or abuses by interested persons during the liquidation proceedings.

Fifthly, establishing the conditions for payment of court costs, the liquidation manager's remuneration and the activity of experts and other persons is a mechanism that ensures the lawful and fair compensation of the work of all persons participating in the liquidation proceedings.

Accordingly, this provision defines the liquidation plan not merely as a technical document but as the principal legal program ensuring a balance of economic interests, legal guarantees and social responsibility during the liquidation proceedings and also serving as a practical "road map" for the liquidation manager's activity.

2. This provision is aimed at ensuring the priority of creditors' interests during the liquidation proceedings and at establishing a balance between them and the procedural powers of the liquidation manager. It defines the legal procedure for developing, agreeing, and approving the liquidation plan.

The establishment of a requirement to agree on the liquidation plan with the meeting of creditors serves to express the collective will of creditors and to protect their economic interests. This principle is based on the principle of "equality and balance of interests." The requirement for adopting a decision at the meeting of

creditors of "no less than two-thirds of the total amount of claims" (that is ⅔) ensures fair representation of creditors' interests.

The plan prepared by the liquidation manager is examined at the meeting of creditors and creditors have the right to express their proposals and objections. Where the liquidation plan is not approved, the law provides for a guarantee mechanism aimed at preventing the liquidation process from being delayed. In particular, where creditors do not propose their own plan within one week, the liquidation manager obtains the right to approve the manager's own plan. Creditors have the opportunity to participate in approving the liquidation plan, but their inactivity must not suspend the liquidation manager's activity.

3. This provision defines the debtor's active legal status in the insolvency proceedings. In it the debtor acts not merely as a passive participant but as an initiator of the liquidation process and an important party to it.

The fact that the debtor may act as the initiator of the insolvency case is the debtor's right established by law. In this case, the debtor realistically assesses the debtor's own financial condition and applies to the court with a request to commence the liquidation proceedings.

The fact that this provision indicates that "the debtor **is entitled to submit its own liquidation plan**" demonstrates that the provision is aimed at encouraging the debtor's active participation, since it is precisely the debtor who best knows the state of the debtor's own property and can calculate how and in what sequence obligations may be discharged, and strives to ensure financial stability on the basis of an agreement with creditors. This means that during the liquidation proceedings the debtor seeks not to conceal its debts but to settle them openly.

Where the debtor itself has applied to the court, the debtor has the right to attach a draft liquidation plan. This plan indicates the procedure for realizing property, the procedure for satisfying claims, the distribution of assets and the terms of liquidation. During consideration of the case the court sends the liquidation plan submitted by the debtor for examination by the meeting of creditors. Where the creditors approve the plan, it becomes the grounds for its approval by the court; where it is not approved, the liquidation manager may draft its own plan.

Accordingly, the debtor's right to propose a plan ensures the debtor's active and responsible participation and also helps to expedite the liquidation process.

4. Part four of this article establishes as a matter of law that one of the most important stages of the liquidation proceedings—the realization of the debtor's property and satisfaction of creditors' claims—must be carried out on the basis of the liquidation plan. Once the liquidation plan is approved, the liquidation manager is required to implement it within the framework of the law. Under this provision after the sale of property creditors' claims are satisfied out of the funds received in the procedure established by Articles 149, 150, 154 and 185 of the Law. Priority satisfaction is provided for the claims of creditors whose claims are secured by the debtor's property, strict compliance with the order of priority for satisfying claims,

settlements with creditors are carried out in the established procedure, and the rules on satisfying the claims of the insurer's creditors are complied with.

Accordingly, this provision establishes the implementation of the liquidation plan as a legally binding mechanism; it links the procedure for realizing property and distributing monetary funds to a clear legal basis; it ensures the protection of creditors' interests within the framework of the law and in accordance with the established order of priority.

In practice, this provision is one of the principal legal guarantees ensuring that the liquidation process is completed in an organized, systematic, and fair manner.

See also: International Commentary, p. 775.

Article 146. Liquidation Estate

All of the debtor's assets, regardless of whether they are shown on balance sheets or not, form the basis for constituting the liquidation estate.

The liquidation estate shall not include:

property belonging to the debtor's employees under the right of private ownership;

property used by the debtor under a lease or held in trust management;

the subject matter of a pledge, pledged claims and mortgage certificates except for the cases provided for by part one of Article 149 of this Law;

goods held by the debtor for safekeeping;

other property not belonging to the debtor in accordance with legislation.

Social infrastructure facilities and public utility facilities belonging to the state that are on the debtor's balance sheet but not included in the debtor's charter fund (charter capital) as well as those provided to the debtor for use shall, within one month of the debtor being declared bankrupt and the commencement of the liquidation proceedings, be transferred by the liquidation manager to the relevant local bodies of executive authority and (or) organizations according to their functional affiliation at their residual value.

The article under commentary defines the legal essence of the liquidation estate, providing that all of the debtor's assets as its property are included in the liquidation estate. At the same time, property held in trust management, under lease, or under pledge, as well as facilities such as state-owned infrastructure facilities, are not included in it and must be transferred to the relevant bodies within the established term.

1. This provision establishes the principal legal rule for determining the debtor's property base during the liquidation proceedings and its lawful inclusion in the liquidation estate. Its content embodies the idea of fully ensuring creditors' interests during the insolvency proceedings and ensuring property transparency.

Firstly, all of the debtor's assets are understood to mean all property, property rights and material assets that the debtor holds under the right of ownership and with respect to which the debtor has the power of disposal. Here the term "assets" is used

in a broad sense and includes not only fixed assets reflected on the accounting balance sheet but also the debtor's property that is concealed or unrecorded but may be identified.

Secondly, the provision "regardless of whether they are shown on balance sheets or not" means that when including property in the liquidation estate, attention is paid not to the formal state of the accounting records but to the legal ownership of the property and its actual existence. Where property actually belongs to the debtor but is not reflected in the accounting records, it is likewise subject to inclusion in the liquidation estate. This provision prevents instances of concealment of property and the artificial reduction of the liquidation estate during liquidation.

Thirdly, this rule establishes the liquidation manager's duty—the manager is required to identify all of the debtor's assets, conduct a full inventory of them, and bears responsibility for including them in the liquidation estate.

2. Part two of this article establishes the legal boundaries of the liquidation estate, under which the liquidation estate is formed only from the debtor's actual property, while the personal property of employees, property under lease or trust management, pledged assets, goods transferred for safekeeping, and other property that does not belong to the debtor in accordance with legislation are not included in it.

Firstly, items belonging to employees under the right of private ownership, for example personal clothing, a laptop, a phone, or property transferred to them under an employment contract and that has become their personal property, are not included in the liquidation estate.

Accordingly, this rule serves to ensure property fairness and protect personal rights during the liquidation proceedings; that is, it guarantees that the personal property of employees will not be used as a source for discharging the debtor's obligations.

Secondly, this provision provides that two types of property are also not included in the liquidation estate.

Property held in trust management, that is, property with respect to which the debtor acts only as a manager but is not the owner, is not treated during liquidation as an asset of the debtor. Such property is the property of another person (the settlor of the trust) on the basis of a trust management agreement.

Property used under a lease is property that the debtor received for temporary use under a lease agreement but of which the debtor is not the owner. Therefore, the liquidation manager is not entitled to sell such property or use it to satisfy creditors' claims.

This provision establishes a clear legal distinction between the right of ownership and the right of use. In this regard, the liquidation estate is formed only from assets belonging to the debtor under the right of ownership. Accordingly, this rule ensures the inviolability of another person's property during liquidation, protects the interests of owners, and keeps the liquidation manager's powers within lawful limits.

Thirdly, the subject matter of a pledge, including pledged claims and pledge certificates, is as a rule not included in the liquidation estate since the pledgee has a preferential right to them.

The essence of the institution of pledge is that the debtor, for the purpose of securing performance of its obligation, provides property or a right of claim as a pledge. Therefore, even after the commencement of the liquidation proceedings, this property is not at the debtor's free disposal—it is bound up with the interests of a particular pledgee.

However the provision contains an exception through the wording: "except for the cases provided for by part one of Article 149 of this Law." Under this exception, where claims secured by a pledge are satisfied in the established procedure or the subject matter of the pledge is realized, and its value is returned to the debtor's general liquidation estate, such assets may, to a certain extent, be drawn into the liquidation process.

Accordingly, this provision ensures a fair procedure for protecting creditors' interests by separating property secured by a pledge from the liquidation estate, preserves the inviolability of the right of ownership, and establishes clear boundaries for accounting for property during the insolvency proceedings.

Fourthly, goods transferred to the debtor for safekeeping are not included in the liquidation estate since such goods are not the debtor's property—they were transferred to the debtor only for temporary storage. In this case, the debtor acts not as an owner but as a custodian. Accordingly, the debtor has no right to derive benefit from using these goods, sell them, or dispose of them.

Therefore, during liquidation, property of this kind cannot be treated as an asset of the debtor. It is deemed to be another person's property that must be returned only to the owner.

Fifthly, in accordance with legislation, assets that are not the debtor's property, that is, with respect to which the right of ownership has not passed to the debtor, are not included in the liquidation estate—property used under lease agreements, trust management, financial leasing, commission, agency, storage and processing (production) contracts using the customer's raw materials. This rule is based on the provisions of the CC governing the right of ownership as well as on the provisions of sectoral legislation. Accordingly, this provision ensures that settlements during the liquidation proceedings are made exclusively out of assets belonging to the debtor and prevents the violation of other persons' property rights.

3. Part three of this article is an important legal guarantee ensuring the inviolability of state property and the preservation of its functional purpose during the liquidation proceedings. Under this provision, where there are social or public utility facilities belonging to the state on the debtor's balance sheet that are not included in the charter capital (for example, schools, kindergartens, heating networks, water supply facilities, or road infrastructure facilities), they are not

deemed to be independent property of the debtor and are not included in the liquidation estate.

The legal essence of this provision is that, in conjunction with the provisions of the CC and the Laws of the Republic of Uzbekistan "On the Management of State Property" and "On State Authority Locally," it prevents the privatization or unlawful realization of state property. The liquidation manager is required to determine the residual (book) value of such facilities and, within one month, transfer them to the relevant local state authorities and (or) organizations depending on their functional purpose, which ensures the uninterrupted functioning of state infrastructure.

In practice, this rule protects socially significant facilities (heat supply, water supply, road infrastructure and other facilities) from ceasing to operate, guaranteeing that during the liquidation proceedings the priority of economic interests will not cause harm to the interests of the state and society. At the same time, this provision clearly defines the duties and responsibilities of the liquidation manager: the manager must properly dispose, within the framework of the law, not only of the debtor's property but also of state property.

See also: International Commentary, p. 775.

Article 147. Appraisal of the Debtor's Property

During the liquidation proceedings the liquidation manager conducts an inventory and determines the value of the debtor's property. To carry out this activity the liquidation manager is entitled to engage an appraisal organization and other specialists with payment for their services out of the debtor's property unless another source of payment is established by the meeting of creditors or the committee of creditors. When appraising the property of an enterprise a portion of whose charter fund (charter capital) belongs to the state the engagement of an appraisal organization is mandatory. The meeting of creditors or the committee of creditors is entitled to designate a person who, with that person's consent, assumes the duty of paying for such services with subsequent out-of-turn reimbursement of the expenses incurred by that person out of the debtor's property.

Where during the liquidation proceedings payment is made using immovable property that property is appraised before its sale by an appraisal organization unless otherwise established by the meeting of creditors or the committee of creditors.

The appraisal of the debtor's property that is the subject matter of a pledge is mandatorily conducted by an appraisal organization.

The article under commentary establishes the liquidation manager's duty to conduct an inventory and appraisal of the debtor's property, providing that the appraisal must be carried out through an appraisal organization and other specialists and that for enterprises with a state share this requirement is mandatory. The article

also defines the sources for covering the costs of conducting the appraisal—at the expense of creditors or of the debtor's property.

1. This provision defines the procedure for identifying the debtor's property and determining its value during the liquidation proceedings and is aimed at ensuring compliance with the principles of accuracy, objectivity and lawfulness during this process. *Firstly*, by conducting an inventory of all of the debtor's assets, the liquidation manager determines the composition of the liquidation estate, which creates the legal basis for the subsequent realization of assets and discharge of the debtor's obligations. *Secondly*, the appraisal of property may be conducted only by an appraisal organization holding the corresponding license since this guarantees the objectivity of the appraisal results and their legal force. In this regard, for enterprises a portion of whose charter fund (charter capital) belongs to the state, the engagement of an appraisal organization is mandatory. *Thirdly*, the source for paying the costs of conducting the appraisal and engaging specialists is determined to be the debtor's property. However, the meeting of creditors or the committee of creditors is entitled to impose this duty on another person. In this regard, the consent of such person is required, and it is provided that the expenses incurred by that person are subject to reimbursement out of turn. Accordingly, this provision serves as an important legal mechanism ensuring the transparency of the liquidation process, the protection of the rights of interested persons, and compliance with state interests.

2. This provision is aimed at ensuring legal certainty and economic fairness in cases where immovable property is used as a form of payment during the liquidation proceedings. *Firstly*, where the remuneration of the liquidation manager or other engaged specialists is paid not in monetary form but by way of transfer of immovable property, the value of such property must be objective and correspond to its market price. Therefore, legislation provides for the mandatory determination of its value by an appraisal organization holding the corresponding license. This guarantees that the property is accounted for at a fair value and precludes harm being caused to the interests of creditors or the debtor. *Secondly*, this requirement is aimed at preventing the devaluation of assets, their transfer at an undervalued price, or abuses by interested persons during the liquidation proceedings. Accordingly, this provision serves as an important legal mechanism aimed at ensuring the fair appraisal of immovable property, protecting creditors' interests and the transparency of settlements carried out by way of transfer of property.

3. Part three of the article under commentary is aimed at ensuring the objectivity of the appraisal of property serving as security for the debtor's obligations as well as at creating the necessary legal guarantees. Where the debtor's property is the subject matter of a pledge, mortgage or other type of security, its value is subject to mandatory determination by an appraisal organization. The legislator's principal purpose in this case is to prevent the artificial overstatement or understatement of the value of property under the influence of subjective factors or interested persons.

An appraisal organization carries out its activity on the basis of a license and determines the value of property taking into account market conditions, the physical condition of the asset and existing legal restrictions. Accordingly, this requirement is aimed at protecting creditors' rights during the liquidation proceedings, establishing the actual value of property transferred as security for obligations, and ensuring transparency and fairness in its subsequent realization or distribution.

In practice, this provision helps to reduce the number of disputes relating to the appraisal of pledged property and also ensures the economic soundness and legal stability of the liquidation procedure carried out under judicial oversight.

See also: International Commentary, p. 776.

Article 148. Debtor's Accounts

The liquidation manager is required to use during the liquidation proceedings a single soum account and a single foreign-currency account of the debtor (hereinafter—the debtor's single accounts). Other accounts of the debtor with a bank that are known at the time of commencement of the liquidation proceedings or discovered during the liquidation proceedings are subject to closure by the liquidation manager as they are discovered. The balances of the debtor's monetary funds from such accounts must be transferred to the debtor's single accounts.

Monetary funds received during the liquidation proceedings are also credited to the debtor's single accounts.

Payments to creditors are made from the debtor's single accounts in the procedure provided for by Articles 149, 150 and 185 of this Law, and the following are paid:

expenses relating to the payment of the liquidation manager's remuneration;

the debtor's current payments for utility and operating expenses;

expenses relating to the publication of information made during the insolvency procedures as well as to notifying the debtor's creditors;

other expenses relating to carrying out the liquidation proceedings.

The liquidation manager submits a report on the use of the debtor's monetary funds to the meeting of creditors or the committee of creditors in the procedure provided for by Article 155 of this Law.

The article under commentary provides for the consolidation of all of the debtor's bank accounts into single accounts, the making of payments through them exclusively in the procedure established by law, and ensuring creditors' oversight of the use of monetary funds by the liquidation manager.

1. This provision establishes an important legal requirement aimed at ensuring financial discipline and transparency in the movement of monetary funds during the liquidation proceedings. The consolidation of all of the debtor's bank accounts into single accounts (in national and foreign currency) strengthens financial oversight by

the liquidation manager, centralizes the expenditure of monetary funds and serves to protect creditors' interests.

By imposing on the liquidation manager the duty to promptly and fully identify all of the debtor's bank accounts, close them and consolidate the monetary funds held in them into the debtor's single accounts (in national and foreign currency), the centralization of financial resources is ensured, instances of concealment of monetary funds and their misuse are prevented and a basis is created for the fair distribution of funds among creditors.

The liquidation manager is required to request from all banks and credit organizations a list of accounts belonging to the debtor as well as the latest bank statements and registers of transactions on them. Accounts must exist only in the form of a "single account in national currency (soums)" and a "single foreign-currency account." All other accounts are subject to closure immediately upon their identification. The balances of monetary funds in each account being closed must in every case be transferred in full to the corresponding single account. Cash funds held in the cash register, if any, are subject to inventory and, in accordance with the applicable rules, must be deposited with a bank or preserved in another appropriate manner. Receipts in foreign currency and monetary funds accounted for in foreign currency must be reflected separately. Documents confirming all transactions for closing accounts and transferring monetary funds (bank orders, certificates, receipts and other confirming documents) are subject to mandatory retention and submission to the meeting of creditors or the committee of creditors in the established procedure.

2. This provision is introduced for the purpose of ensuring the centralization of monetary turnover and financial oversight during liquidation as well as to protect creditors' interests and ensure financial transparency and accountability. From the standpoint of the theory of financial law, a single account represents a financial-centralization instrument established by law; that is, the single point of monetary turnover through which all financial transactions carried out during the liquidation procedure must pass.

In particular, during the liquidation proceedings, monetary funds may be received from the sale of the debtor's property, the collection of accounts receivable, performance of obligations under lease agreements, payment of compensation, insurance indemnity and other contracts as well as on the basis of judicial and arbitral decisions. All such monetary funds are subject to mandatory crediting directly to the single account.

The liquidation manager is required to establish a strict procedure for accepting monetary funds, documenting them and crediting them to the bank. Each receipt must be formalized by the corresponding documents with mandatory indication of the source of the receipt. Reports on the movement of monetary funds received are submitted by the liquidation manager to the committee of creditors or the meeting of creditors. This allows creditors to monitor the transparency of monetary turnover during the liquidation procedure.

Where monetary funds received are not credited directly to the single account, such action is treated as a violation of the law by the liquidation manager and may result in the manager being held liable accordingly.

Accordingly, this provision guarantees that the liquidation proceedings are conducted fairly, under oversight, and within the framework of the law.

3. Part three of this article establishes the procedure for using the debtor's monetary funds during the liquidation proceedings. It provides that all of the debtor's monetary receipts and payments must be made exclusively through the single accounts. This allows the liquidation manager to exercise oversight of the movement of monetary funds and also ensures the transparency and lawfulness of their distribution. Articles 149, 150 and 185 of the Law establish the order of priority for satisfying creditors' claims. Under these provisions, the debtor's monetary funds are directed in the first instance toward covering the obligations relating to carrying out the liquidation proceedings. Such payments take priority even over creditors' claims, and their list is provided for by this provision.

In particular such expenses include: expenses relating to payment of the liquidation manager's remuneration necessary for the material support of the manager's activity; utility and operating expenses aimed at maintaining the conditions necessary to complete the debtor's activity; expenses relating to publishing information and notifying creditors, ensuring the openness of the liquidation proceedings and the awareness of its participants; other expenses including conducting examinations, appraising property, formalizing and circulating documents, notarial services and other necessary costs.

This procedure not only ensures the protection of creditors' interests but also helps to ensure compliance with the principles of accountability, openness and transparency before the state and society.

4. This provision constitutes a procedural rule aimed at ensuring the mechanisms of financial reporting and oversight during the liquidation proceedings. It is inseparably linked with Article 155 of the Law and in practice guarantees the liquidation manager's accountability, creditors' oversight powers and the financial transparency of the procedure.

The liquidation manager, as the person vested with the powers to manage all of the debtor's property, its bank accounts and monetary funds, bears responsibility for the use of the debtor's monetary funds. Accordingly, the manager is required to prepare, within the established time frame, a report on the use of the debtor's monetary funds and submit it to the meeting of creditors or the committee of creditors.

Such a report: first is a legal document that serves as one of the principal pieces of evidence of the lawfulness, purposive nature and correctness of the financial transactions carried out; second serves as a means of protecting creditors' interests since it gives them the opportunity to see clearly how the debtor's monetary funds were spent; third serves as a criterion for assessing the liquidation manager's activity.

Where deficiencies or violations of legislation are identified in the report, creditors are entitled to demand a review of the manager's activity or apply to the court.

Article 155 of the Law defines the powers of the meeting of creditors and the committee of creditors. Under its provisions, creditors are entitled to hear the liquidation manager's reports, approve or reject them, exercise oversight of the manager's activity and, where necessary, raise the question of the manager's replacement. Accordingly, this provision places the liquidation manager's activity under the collective oversight of creditors.

The liquidation manager's duty to submit reports on the use of monetary funds is one of the law's key mechanisms ensuring financial transparency, oversight by creditors and fair administration of the procedure. It prevents corruption, abuses, and conflicts of interest during liquidation and also ensures the practical protection of creditors' rights.

Article 149. Satisfaction of the Claims of Creditors Secured by a Pledge of the Debtor's Property

The claims of creditors secured by the debtor's property are satisfied out of the funds received after the sale of that property. The remainder of these funds is directed toward satisfying creditors" claims in accordance with Article 150 of this Law.

Where the amount received from the sale of the pledged property proves insufficient for the full satisfaction of the claims of creditors secured by the property, the remaining part of the claims must be satisfied in accordance with the order of priority established by Article 150 of this Law.

Where an auction in the form of an electronic online auction and (or) a repeat auction in the form of an electronic online auction for the sale of property provided as security for performance of the debtor's obligations is declared not to have taken place, this property is offered to the creditors whose claims are secured by this property for acceptance in satisfaction of their claims in the established procedure. Where the market value of the debtor's property accepted, that was provided as security for performance of obligations, exceeds the claims of the creditors secured by this property, the resulting difference is compensated in monetary form by the creditors accepting the property in satisfaction of their claims.

Where all of the debtor's property has been accepted as security for performance of obligations and the amount received from the sale of this property proves less than or equal to the amount of the claims of creditors secured by all of the debtor's property the discharge of the claims of these creditors is carried out after the discharge of the expenses and satisfaction of the claims provided for by part one of Article 150 of this Law and the claims under payment documents providing for the disbursement of monetary funds for the payment of wages.

The article under commentary establishes the procedure for satisfying the claims of creditors secured by the debtor's property out of the funds obtained from the sale of that property; the conditions for transferring property to a creditor in satisfaction of the creditor's claims where an electronic online auction has not taken place; the procedure for monetary compensation of any excess value of the property; and the order of priority for satisfying claims in cases where all of the debtor's property is subject to security.

1. This provision is an important element of the legal regulation of security for the debtor's obligations. Under its content, persons whose claims are secured by particular property of the debtor hold a preferential right as against other creditors, and their claims are satisfied first out of the funds obtained from realizing the property provided as security. Where the monetary funds obtained from the sale of the property fully cover the claims of the creditor secured by the debtor's property, the remaining amount is distributed to satisfy the claims of the other creditors in the order of priority provided for by Article 150 of the Law.

This procedure serves as a mechanism for ensuring a legal balance among creditors.

2. Under part two of this article, the claims of a creditor secured by the debtor's property are discharged first out of the funds obtained from realizing the subject matter of the security. However, where these funds are insufficient for full satisfaction of the claims, the remaining part of the debt is satisfied on an equal footing with the claims of other creditors in the order of priority provided for by Article 150 of the Law.

A creditor whose claims are secured by the debtor's property exercises its preferential right with respect to the subject matter of the security and receives satisfaction of its claims on a priority basis. This preference, however, applies only within the limits of the value of the subject matter of the security. With respect to the remaining part of the debt, such a creditor participates in the procedure on an equal footing with other creditors. For example, where after the sale of pledged property its value covers 70 percent of the debt owed to the pledgee, the remaining 30 percent is treated as an ordinary claim in the general order of priority and is satisfied together with the claims of other creditors.

Accordingly, this provision combines the principles of priority and equality, ensuring the protection of the rights of creditors whose claims are secured by the debtor's property while at the same time not permitting the interests of the remaining creditors to be infringed.

3. This provision establishes the legal procedure for cases where the debtor's property transferred as security has not been sold through an electronic online auction or a repeat electronic online auction has likewise not produced a result. In such a situation where the realization of the property proves impossible, it is transferred to the creditor whose claims are secured by this property in discharge of the creditor's claims. Furthermore, the provision stipulates that where the market value of the

property exceeds the amount of the creditor's claims that is an amount arises exceeding the amount of the creditor's claim such difference is subject to payment in monetary form. These rules are aimed at protecting creditors' interests and ensuring the principles of fair distribution of property in accordance with its economic value.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On Certain Issues of the Application by Economic Courts of the Provisions of the Law of the Republic of Uzbekistan 'On Insolvency'"

37. Courts' attention is drawn to the fact that under **Article 149 of the Law** the claims of creditors secured by the debtor's property are satisfied out of the funds received after the sale of this property at an auction in the form of an electronic online auction.

Where an auction and (or) a repeat auction in the form of an electronic online auction is declared not to have taken place this property is offered to the creditors whose claims are secured by this property for acceptance in satisfaction of their claims in the established procedure. Where the market value of the debtor's property accepted, that was provided as security for performance of obligations, exceeds the claims of the creditors secured by this property the resulting difference is compensated in monetary form by the creditors accepting the property in satisfaction of their claims.

Under part one of Article 7 **of the Law of the Republic of Uzbekistan "On Appraisal Activity"** the market value of a subject of appraisal is understood to mean the most probable price at which the subject of appraisal in question may be alienated on the open market under conditions of competition, where the parties to the transaction act reasonably and without compulsion in their own interests, possessing all the necessary information, and the amount of the transaction price is not affected by any extraordinary circumstances, including an obligation for one of the parties to enter into the transaction in question.

An analogous provision is also contained in paragraph 76 **of the Unified National Valuation Standard of the Republic of Uzbekistan**, registered by the Ministry of Justice of the Republic of Uzbekistan on 28 December 2023 under No. 3487.

Accordingly where an auction and (or) a repeat auction in the form of an electronic online auction is declared not to have taken place the property is offered to the creditors whose claims are secured by this property for acceptance in satisfaction of their claims in the established procedure at the price established at the last auction.

4. This provision defines how a balance is ensured between the legal and economic interests of the debtor and creditors in a case where all of the debtor's property is the subject matter of security for performance of obligations and the funds obtained from its realization are insufficient for the full satisfaction of all the claims of creditors secured by the debtor's property.

Under this provision, the expenses provided for by part one of Article 150 of the Law are covered first (in particular court costs, expenses relating to payment for the services of judicial managers, current utility and operating payments and expenses for insuring the debtor's property). After this the claims of creditors secured by the debtor's property are satisfied and only then are the claims under payment documents providing for the disbursement of monetary funds for the payment of employees' wages subject to satisfaction.

See also: International Commentary, p. 776.

Article 150. Order of Priority for Satisfying Creditors' Claims

Court costs, expenses relating to payment of remuneration to judicial managers, current utility and operating payments and expenses for insuring the debtor's property are covered outside the order of priority, and claims under obligations of the debtor arising after the initiation of the insolvency case and the claims of citizens to whom the debtor is liable for causing harm to life or health in accordance with legislation are likewise satisfied outside the order of priority, except for the claims provided for in part three of Article 154 of this Law.

In the first order of priority the following are satisfied: claims under payment (executive) documents providing for the disbursement of monetary funds for the payment of wages; claims under writs of execution providing for the transfer or disbursement of monetary funds from the debtor's single account to satisfy claims for the collection of alimony; claims for the payment of remuneration under copyright agreements, ensuring an equal degree of performance of the debtor's payment obligations and claims arising from labor relations and relations equated to them; as well as the claims of citizens for compensation of damage caused to their property by a crime or an administrative offense.

In the second order of priority the following are satisfied: claims for taxes and duties; claims for mandatory insurance; claims for bank loans and insurance of bank loans; the claims of creditors secured by a pledge with respect to the uncovered portion of the debt owing to the insufficiency of the amount received from the sale of the pledged property (the subject matter of the pledge); and the claims of creditors not secured by a pledge.

In the third order of priority, the claims of shareholders for accrued dividends are satisfied.

In the fourth order of priority, all remaining claims are discharged.

The claims of each subsequent order of priority are satisfied after the claims of the preceding order of priority have been discharged in full.

Where the amount collected is insufficient for the full satisfaction of all claims of a single order of priority, such claims are satisfied in proportion to the amount due to each claimant.

A special notice is published in the mass media on the making of the final payment.

The residual value of property after satisfaction of creditors' claims and payment of the expenses of conducting the insolvency case, as well as any property remaining unsold during liquidation, is received by the founders (participants) or the owner of the property of the debtor being liquidated, except for the cases provided for by Article 159 of this Law.

The article under commentary establishes the procedure and order of priority for directing the monetary funds obtained as a result of realizing the debtor's property toward satisfying creditors' claims, that is it provides that court and administrative expenses are discharged first, as well as payments for harm caused to a person's life or health; then claims relating to remuneration for labor, alimony and property damage; after this, claims for taxes, bank obligations and claims relating to pledges; then claims for dividends; and in the last order of priority all remaining claims are satisfied.

1. This provision is of significant practical importance for judicial practice and the activity of liquidation managers since it establishes the principle of the priority order of payments. Under this principle, during the liquidation proceedings, the mandatory expenses relating to the proceedings themselves must be covered first, since it is precisely these that ensure the possibility of the proceedings being conducted lawfully and effectively.

On the one hand, this guarantees the material support of the work and services of the persons participating in the liquidation proceedings (the court, the liquidation manager, servicing organizations); on the other hand, it ensures the protection of human life and health as the highest social value.

In practice, this rule prevents the liquidation proceedings from being suspended, ensures the lawful financing of the liquidation manager's activity, and guarantees the protection of citizens' personal rights.

2. This provision defines the claims subject to satisfaction in the first order of priority and is aimed at ensuring social fairness and protecting citizens' property rights. Under it, claims for the payment of wages, alimony, copyright remuneration, and other payments arising from labor relations, as well as claims for compensation of property damage caused to citizens, take priority over all other obligations of the debtor. In judicial practice, this rule ensures state protection of obligations relating to personal labor, social security and compensation of material damage, and obliges the liquidation manager to satisfy precisely such claims first.

3. This provision defines the range of claims subject to satisfaction in the second order of priority and is aimed at protecting the financial interests of the state and commercial organizations. Claims for taxes and duties are recognized as a priority in order to ensure the stability of the state budget, while claims for bank loans and mandatory insurance are recognized as a priority in order to maintain the stability of the financial system. Furthermore, placing in the second order of priority the claims for the unpaid portion of debt secured by a pledge as well as the claims of unsecured

creditors makes it possible to preserve a legal balance during liquidation and ensure proportionate protection of the interests of the state and creditors.

4. This provision establishes that the claims of shareholders for accrued but unpaid dividends are satisfied in the third order of priority. Thereby, the interests of the debtor's shareholders are placed after creditors' claims. This order reflects the economic nature of shareholder relations since the right to receive profit is linked to entrepreneurial risk. In practice, this means that during the liquidation proceedings, settlements on dividends may be made only after mandatory payments and creditors' claims have been discharged in full.

5. This provision defines the final stage of the order of priority for satisfying claims, placing "all remaining claims" in the fourth order of priority. This category includes general obligations to which the law or a contract has not granted special priority. This rule ensures the principles of equality and proportionality among creditors, that is, all claims not falling within the first through third orders of priority are satisfied last.

In particular, the claims of the fourth order of priority may include: the debtor's commercial debt owed to suppliers of goods; debt for rent payments; monetary obligations arising from civil-law contracts that do not have priority status.

6. This provision establishes the principle of sequence and strict compliance with the order of priority when making payments. Under it the transition to satisfying the claims of the next order of priority is not permitted until the claims of the preceding order of priority have been discharged in full, which ensures compliance with the established order of priority among creditors. This rule is a legal duty of the liquidation manager and guarantees fairness, transparency and the rule of law in the distribution of monetary funds.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On Certain Issues of the Application by Economic Courts of the Provisions of the Law of the Republic of Uzbekistan 'On Insolvency'"

42. The procedure (order of priority) for satisfying creditors' claims is established by Articles 150, **185, 192, 221, 236** of the Law. In this regard the claims of each order of priority are satisfied after the claims of the preceding order of priority have been satisfied in full.

Creditors' claims not satisfied owing to the insufficiency of the debtor's property are likewise deemed discharged, with the exception of the debtor's obligations secured by other persons.

The claims of creditors not recognized by the liquidation manager are also deemed discharged where the creditor has not applied to the court or such claims have been recognized by the court as unsubstantiated.

7. This provision provides for the principle of proportional distribution which ensures the fair and equal satisfaction of the claims of creditors of a single order of

priority. Where the monetary funds available are insufficient to cover all claims in full, each creditor receives payment in an amount proportional to its claim. In practice, this rule requires the liquidation manager to make an accurate calculation when distributing monetary funds, to ensure equal treatment among creditors without granting any advantages, and is a practical expression of the principles of equality and fairness before the law.

8. This provision establishes the procedure for the official announcement of the completion of all settlements at the final stage of the liquidation proceedings. This rule is based on the principles of openness and public oversight and ensures that reliable information on the completion of the case is brought to the attention of creditors, participants and other interested persons. In practice, the duty to publish such a notice in the mass media is imposed on the liquidation manager, which serves as a guarantee of the transparency and lawfulness of the liquidation proceedings.

9. This provision legally determines the fate of the debtor's remaining property as the final outcome of the liquidation procedure. Under it, after all creditors' claims have been satisfied and the expenses relating to liquidation covered, the remaining property or its value is subject to transfer to the founders (participants) of the debtor or the owner of the property. This rule is based on the principles of the inviolability of the right of ownership and the protection of the legitimate interests of business entities. In practice, this procedure is one of the liquidation manager's final actions in preparing the final report. An exception is made for the special cases provided for by Article 159 of the Law (for example, the transfer of the debtor's property into state ownership and its transfer to the balance sheet of local state authorities) in which the remaining property is not transferred to the founders (participants).

See also: International Commentary, p. 776.

Article 151. Sale of the Debtor's Property

After the inventory and appraisal of the debtor's property have been conducted, the liquidation manager proceeds to sell this property at auction in the form of an electronic online auction.

The procedure and time frame (schedule) for the sale of the debtor's property must be approved by the meeting of creditors or the committee of creditors.

Where the procedure and time frame (schedule) for the sale of the debtor's property have not been approved by the meeting of creditors or the committee of creditors within one month of the liquidation manager submitting the manager's proposals on the procedure and time frame for the sale of the debtor's property to creditors the meeting of creditors or the committee of creditors or the liquidation manager is entitled to apply to the court with an application to resolve the disagreements that have arisen. Following consideration of these disagreements, the court either approves the procedure and time frame (schedule) for the sale of the property or releases the liquidation manager from performance of the manager's duties.

Where circumstances arise during the liquidation proceedings requiring changes to be made to the time frame (schedule) for the sale of property the liquidation manager is required to develop and submit corresponding proposals for changing the time frame (schedule) to the meeting of creditors or the committee of creditors within one month of such circumstances arising.

The debtor's property that is of limited transferability may be sold only at a closed auction in the form of an electronic online auction. Persons who under the law may hold such property under the right of ownership or another proprietary right participate in the closed auction in the form of an electronic online auction.

The liquidation manager conducts the auction in the form of an electronic online auction on the basis of a contract with a specialized organization. A specialized organization conducting the auction in the form of an electronic online auction may not be an interested person with respect to the debtor and the liquidation manager.

The sale of the enterprise (business) or a part of the debtor's property is carried out in the procedure established by Articles 126 and 127 of this Law.

The article under commentary defines the procedure for selling the debtor's property through an electronic online auction after its inventory and appraisal, the mechanisms for the approval of this process by the meeting of creditors or the court, and the legal basis ensuring that the sale process is lawful, open, and free of conflicts of interest.

1. This provision establishes the principal stage of the sale of the debtor's property during liquidation and is aimed at ensuring its transparency and economic efficiency.

Under paragraph 1 of Decree of the President of the Republic of Uzbekistan No. PP-4146 of 1 February 2019 "On Measures to Further Simplify the Bankruptcy Procedure and Fundamentally Improve the Activity of Judicial Managers," the property of debtors with respect to whom insolvency procedures have been applied is realized by judicial managers through an electronic online auction on the "E-auksion" electronic trading platform or, in cases provided for by legislation, through competitive bidding on this platform.

In this process, the following should be noted.

Firstly, the sale of property may be commenced only after the work on its inventory and appraisal has been fully completed. Inventory and appraisal are a preparatory stage of the liquidation process. This requirement ensures the availability of reliable information on the precise volume, composition and value of the property, which is a legal guarantee for the fair satisfaction of creditors' claims.

Secondly, the requirement established by this provision that property be sold through an electronic online auction in the form of public bidding using modern digital systems ensures openness, competition and equal participation of interested persons. This mechanism reduces the risk of corruption or covert arrangements and creates the possibility of selling property at a price close to market value.

Thirdly, the concept of "auction bidding" provides for the sale of property to the participant offering the highest price. This in turn makes it possible to increase the financial value of the debtor's property and ensures the possibility of more fully satisfying creditors' claims.

Accordingly this provision regulates the liquidation manager's activity from a legal standpoint and helps to implement the principles of openness, economic efficiency and equality in carrying out the property sale process.

2. This provision establishes that the question of selling the debtor's property during liquidation is decided not unilaterally but on the basis of a collective decision. Approval by the meeting of creditors or the committee of creditors of the procedure and time frame (schedule) for the sale is an important guarantee for protecting creditors' interests. This requirement ensures oversight of the liquidation manager's actions and also guarantees a fair and transparent process. At the same time it prevents the risk of property being sold hastily or realized at an undervalued price.

Accordingly this provision ensures the participation of creditors and helps to ensure that the liquidation process is conducted on a lawful and economically sound basis.

3. This provision regulates an important balance during liquidation—the legal relationship between the liquidation manager's powers and oversight by creditors.

Firstly, where the meeting of creditors or the committee of creditors does not approve the liquidation manager's proposals for the sale of property within one month, this indicates a delay in decision-making or the existence of disagreements.

Secondly, this provision grants both parties—creditors as well as the liquidation manager—the right to apply to the court, which corresponds to the principle of legal equality and balance of interests.

Third, the court in such a case acts as a neutral arbiter, resolves the disagreements that have arisen, and determines a fair decision. The court approves the procedure and time frame for the sale of property or releases the liquidation manager from performance of the manager's duties.

Accordingly, this provision constitutes a mechanism for the legal resolution of disagreements between the liquidation manager and creditors during liquidation, ensures transparency, and guarantees the effective realization of property.

4. This provision expresses the procedure for dynamic management during liquidation and for decision-making by agreement with creditors.

Firstly, during liquidation the situation may change—for example, a decline in market prices, a change of seller or buyer, the arising of legal obstacles or the emergence of new financial circumstances may occur. Therefore, the need to make changes to the time frame for realizing property is a natural occurrence.

Secondly, this provision requires the liquidation manager to take an active and responsible position. Where any changes arise, the manager is required within one month to develop new proposals and submit them to the meeting of creditors or the

committee of creditors. This determines the manager's accountability and responsibility.

Thirdly, this requirement protects creditors' interests since any changes may be made only with their consent.

Accordingly it shows that the plan for realizing property during liquidation is not established only once but is a "dynamic document" that may be revised within the framework of the law.

5. This provision is aimed at ensuring the legal restrictions on the circulation of property and safety guarantees.

Firstly, "property of limited transferability" is understood to mean assets relating to state security, public order or fields requiring a special license (for example weapons, strategic raw materials, facilities containing state secrets and the like). Therefore, their realization is carried out not through a general open auction but through closed bidding in which only persons holding special permission may participate.

Secondly, conducting the auction "in the form of an electronic online auction" ensures the openness and transparency of the procedure, but the "closed" format limits the range of participants—only entities permitted to do so by law may participate. This prevents violations of the law and the unlawful circulation of property.

Thirdly, this provision requires the liquidation manager to have thorough knowledge of the legal particularities of the circulation of property since the manager is required to ensure that such property can be sold exclusively to lawful entities.

Accordingly, this rule serves as a mechanism directly ensuring state security, economic stability, and legal oversight.

6. This provision ensures the objectivity and transparency of the auction procedures during liquidation and prevents conflicts of interest.

Firstly, the liquidation manager does not conduct the electronic online auction independently but organizes it on the basis of a contract with a specialized organization. This is a necessary guarantee of proper technical, legal, and informational support for the auction process.

Secondly, such an organization must not be an interested person with respect to the debtor or the liquidation manager. This means that it must not be connected with the debtor enterprise, participate in its management or among its founders, or have a personal or property interest connected with the liquidation manager. This requirement is aimed at preventing corruption, collusion in determining the price, and the conduct of sham auctions.

Thirdly, the implementation of this procedure in judicial practice determines the liability of the liquidation manager. Where the manager selects an interested organization or permits a violation of the principle of objectivity during the conduct of the auction, the court may treat such actions as grounds for setting aside the

liquidation procedure or releasing the liquidation manager from performance of the manager's duties.

Accordingly, this provision constitutes an important procedural guarantee ensuring that electronic auctions are conducted during the liquidation proceedings on a fair, competitive and lawful basis.

7. This provision links the procedure for selling the debtor's enterprise or a part of its property to a clear legal basis and ensures consistency of regulation through a reference to Articles 126-127.

Upon the sale of the debtor's enterprise as a property complex all types of property intended for carrying out the debtor's business activity pass to the acquirer, including land plots, buildings, structures, equipment, inventory, raw materials, products and rights of claim, as well as the debtor's means of individualization (trade name, trademarks, service marks), its goods, work and services and other exclusive rights belonging to the debtor, except for rights and obligations that may not be transferred to other persons.

The particular features of this procedure are expressed as follows.

Firstly, the sale of the enterprise (business) constitutes a complex legal transaction differing from an ordinary sale of property since it includes not only tangible items but also the assets, obligations, employees and contracts comprising the enterprise. It is precisely for this reason that the procedure for its implementation is regulated by separate articles (Articles 126 and 127).

Secondly, this reference provision ensures the legal certainty of the liquidation manager's activity. When selling the enterprise, the manager must be guided not by the general rules of insolvency procedures but by the special procedure governing the sale of the enterprise's assets as a single property complex.

Thirdly, this provision makes it possible to preserve production or commercial activity, that is, instead of completely liquidating the enterprise, to ensure its continuation by selling the enterprise to a new owner. This is also advantageous for creditors since the value of the assets may in such a case be appraised considerably higher.

Paragraph 4 of Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 188 of 18 April 2003 "On Measures to Increase the Effectiveness of the Restructuring and Financial Rehabilitation of Economically Insolvent Enterprises Being Carried Out" establishes that, by decision of the Cabinet of Ministers or the board of the Agency, the appraisal of the property of enterprises with respect to which insolvency procedures have been applied by decision of the economic court, conducted by an appraisal organization in accordance with an international methodology taking into account the actual market, investment and liquidation value of the property, may be used in the established procedure as the starting price when conducting auction bidding and selling property on the basis of a public offer.

Furthermore, this Resolution approved the Regulation on the procedure for appraising and realizing the property of enterprises being restructured as well as enterprises with respect to which insolvency procedures have been applied.

See also: International Commentary, p. 777.

Article 152. Sale of the Debtor's Rights of Claim During the Liquidation Proceedings

The liquidation manager is entitled to put the debtor's rights of claim up for auction in the form of an electronic online auction where another procedure for selling the debtor's rights of claim has not been established by the meeting of creditors or the committee of creditors.

The sale of the debtor's rights of claim at an auction in the form of an electronic online auction is carried out in compliance with the rules provided for by Article 128 of this Law.

The article under commentary provides for the liquidation manager's power to sell the debtor's rights of claim through an electronic online auction where the meeting of creditors or the committee of creditors has not established another procedure and also establishes that this procedure is carried out in accordance with the requirements of Article 128 of the Law.

1. This provision regulates the procedure for realizing the debtor's rights of claim during the liquidation proceedings (that is, the debtor's monetary or property claims against third persons). Under it, where the meeting of creditors or the committee of creditors has not determined another method of realizing such rights, the liquidation manager is entitled to put them up for sale through an electronic online auction.

In practice this rule serves several important purposes: first it ensures the transparency and competitiveness of the property realization procedure; second it creates the possibility of obtaining the maximum economic effect from the sale of the debtor's rights of claim; third it limits the liquidation manager's actions to the framework of creditors' decisions, ensuring legal oversight and a balance of interests among the participants in the procedure.

Accordingly, this provision establishes the general mechanism for the sale of rights of claim during the liquidation proceedings and guarantees that such realization is carried out on the principles of lawfulness, transparency, and economic expediency.

2. This provision clearly defines the legal procedure for selling the debtor's rights of claim during liquidation and is directly linked to Article 128 of the Law.

Firstly, the sale of such rights of claim through an electronic online auction is a method of realization established by law that is open, competitive, and fair. This ensures that the market value of the rights of claim is determined and creates equal opportunities for all interested persons.

Secondly, under Article 128 of the Law, where the liquidation plan provides for the possibility of selling the debtor's rights of claim to a specific buyer without conducting an electronic online auction, or where the rights of claim have not been realized at the electronic online auction the meeting of creditors or the committee of creditors determines the sale price of the rights of claim and other conditions of such sale.

See also: International Commentary, p. 777.

Article 153. Substitution of the Debtor's Assets During the Liquidation Proceedings

On the basis of a decision of the meeting of creditors, a substitution of the debtor's assets may be carried out during the liquidation proceedings on condition that all creditors have voted in favor of such decision in accordance with the register of creditors' claims.

The consent of the owner of the debtor's property or of the debtor's governing body authorized by the constituent documents to decide on the conclusion of the corresponding transactions is not required for the substitution of the debtor's assets during the liquidation proceedings.

The substitution of the debtor's assets is carried out in the procedure and on the conditions determined by Article 131 of this Law.

The article under commentary establishes the procedure for substituting the debtor's assets during liquidation, providing that this procedure may be carried out only with the consent of all creditors, while the separate consent of the debtor or its governing bodies is not required, and the procedure itself is carried out in accordance with the rules provided for by Article 131 of the Law.

1. This provision defines the legal mechanism for the substitution of assets during the liquidation procedure by forming one or more joint-stock companies on the basis of the debtor's property.

In this case: a) the substitution of assets is a method of preserving the value of the debtor's property and ensuring creditors' interests by contributing the debtor's property to the charter capital of a newly formed joint-stock company; b) such a decision may be adopted only with the unanimous consent of all creditors since the reorganization of property in the form of a joint-stock company directly affects their property interests; c) even if a single creditor objects such substitution is not permitted. This is a manifestation of the principle of equality of creditors and the protection of their interests; d) in practice, this mechanism may help to restore economic activity instead of liquidation since the property is not lost but is preserved in the form of a joint-stock company.

2. This provision establishes that the consent of the debtor itself or its governing bodies is not required when forming a joint-stock company on the basis of the debtor's property.

The essence of this provision is expressed as follows: first after the commencement of the liquidation procedure the powers to exercise the debtor's property rights pass from its management to the liquidation manager; second decisions relating to forming a joint-stock company are adopted by the liquidation manager or the meeting of creditors; third this rule is aimed at eliminating bureaucratic obstacles, that is at precluding the possibility of the debtor impeding the conduct of the liquidation procedure; fourth in practice this creates the possibility of effectively preserving property and using its value in the form of a joint-stock company in the interests of creditors.

3. This provision establishes that the substitution of assets (that is, the reorganization of property in the form of a joint-stock company) must be carried out in strict compliance with the requirements of legislation provided for by Article 131 of the Law.

Under this provision: a) when forming a joint-stock company, the market value of the property must be determined; b) the shares (stock) of participants must be distributed clearly, on a reasoned basis and in accordance with the established procedure; c) all actions must comply with the principles of protecting creditors' interests and equality among them.

Accordingly, the institution of substitution of the debtor's assets is not a mechanism for the sale of property but a method of preserving it in the form of a new joint-stock company and its subsequent engagement in business activity in the interests of creditors.

See also: International Commentary, p. 778.

Article 154. Settlements with Creditors

The liquidation manager makes settlements with creditors in accordance with the register of creditors' claims.

Where it is not possible to transfer monetary funds to a creditor's account, the amount due to the creditor is deposited by the liquidation manager into the deposit settlement account of a notary or the court at the debtor's location (place of residence), and the creditor is notified thereof. Where this amount is not received by the creditor within three years of its deposit into the deposit settlement account of the notary or the court, such amount is transferred by the corresponding notary or court to the State Budget of the Republic of Uzbekistan.

Creditors' claims submitted after the expiration of the term for bringing creditors' claims established in the publication on the commencement of the liquidation proceedings, as well as claims for taxes and duties arising after the commencement of the liquidation proceedings regardless of the term of their submission, are satisfied after satisfaction of the claims of creditors submitted within the established term, in the procedure provided for by Article 150 of this Law.

Discharged creditors' claims are deemed to be claims that have been satisfied as well as claims in respect of which an agreement on a substitute performance has been reached, or in respect of which the liquidation manager has declared a setoff of the claim, or in respect of which there are other grounds for the termination of obligations. A setoff of a claim as well as the discharge of a claim through the provision of a substitute performance is permitted only on condition of compliance with the principle of the order of priority and proportionality of satisfying the claims submitted. The discharge of creditors' claims through the conclusion of an agreement on a substitute performance is permitted where such agreement is agreed with the meeting of creditors or the committee of creditors. The discharge of creditors' claims through the conclusion of an agreement on novation of the debtor's obligation is not permitted in the liquidation proceedings.

Creditors' claims not satisfied owing to the insufficiency of the debtor's property are likewise deemed discharged. The claims of creditors not recognized by the liquidation manager are also deemed discharged where the creditor has not applied to the court or such claims have been recognized by the court as unsubstantiated.

The liquidation manager enters information on the discharge of creditors' claims in the register of creditors' claims.

The article under commentary establishes the procedure for satisfying the debtor's obligations to creditors during the liquidation procedure, the methods for making settlements, the procedure for making payments through a deposit account, the conditions for satisfying claims submitted later, and also defines the cases in which claims are deemed satisfied.

1. Under this provision, the liquidation manager makes settlements with creditors not arbitrarily or at the manager's own discretion but in the procedure and order of priority established in the register of creditors' claims. This is aimed at ensuring fairness, equality and transparency in the settlement process. The register of creditors' claims precisely indicates the amount of each creditor's claim, its nature, and the order of priority for satisfaction. The liquidation manager makes payments based precisely on this data. Thereby, the manager ensures compliance with the legal balance among creditors and does not permit any of them to be unjustifiably prejudiced.

2. This provision establishes an additional legal guarantee for making payments to creditors during the liquidation procedure. Where, for any reason (for example the absence of the creditor's bank account, its closure or the impossibility of establishing its details) it is not possible to transfer monetary funds directly to the creditor the liquidation manager is deemed to have performed the manager's duty by depositing the corresponding amount into the deposit account of a notary or the court.

This mechanism, on the one hand, ensures the protection of the creditor's interests and, on the other, prevents the liquidation procedure from being drawn out. Furthermore a three-year term is established during which the creditor is entitled to

receive the monetary funds due to the creditor. Where the creditor does not claim this amount within this period, the monetary funds are subject to transfer to the State Budget of the Republic of Uzbekistan as state revenue.

Accordingly, this provision provides for a balanced legal mechanism ensuring, on the one hand, the protection of the creditor's rights and, on the other, the protection of state interests and the completion of the liquidation procedure.

3. This provision establishes a sequential procedure for satisfying creditors' claims in the liquidation procedure from the standpoint of the order of priority and the time of their submission. Under it, where a creditor has not submitted its claim within the term established by law, or where new obligations have arisen after the commencement of the liquidation procedure (for example, for the payment of taxes and duties), such claims are subject to satisfaction only after settlement in full with the principal creditors.

In other words, the claims of the principal creditors submitted in a timely manner are satisfied first, while claims arising later or submitted after missing the established term are subsequently satisfied in the procedure provided for by Article 150 of the Law.

This legal mechanism ensures compliance with the principles of fairness and priority in the liquidation procedure; that is, the interests of creditors whose claims were timely identified and submitted are protected first, after which the claims that arose or were submitted later are satisfied in the established procedure. Accordingly, this provision is aimed at ensuring order, transparency, and stability in making settlements among creditors.

4. This provision defines the legal forms and limits for satisfying creditors' claims during liquidation and also clearly establishes the cases in which a claim is deemed "satisfied."

Claims are recognized as satisfied in the following cases: a) where the debtor has properly performed the obligation to the creditor (for example made payment in monetary funds or transferred property); b) where an agreement waiving the claim has been signed between the parties; c) where the liquidation manager has recognized the claim as discharged, that is the obligation has been terminated in whole or in part by setoff of a counterclaim of the same kind the term for performance of which has arrived, is not indicated or is determined by the moment of demand; d) where there are other grounds for the termination of obligations (for example where the debtor and the creditor become one and the same person; the creditor forgives the debt; performance of the obligation becomes impossible; performance of the obligation becomes impossible in whole or in part as a result of the adoption of an act of a state body; upon the death of the debtor or creditor that is a natural person with respect to obligations inseparably linked to the person; upon liquidation of a legal entity as a result of which the obligation is terminated). In these cases the claims are deemed to be satisfied claims of creditors.

At the same time the satisfaction of a claim through forgiveness of debt or setoff is permitted only in strict compliance with the order of priority and the principle of proportionality established by the Law. This is an important condition for ensuring equality and fairness with respect to all creditors during liquidation.

Furthermore, under Article 342 of the CC, an obligation may be terminated by agreement of the parties through the provision of a substitute performance in place of its performance. For example, instead of paying monetary funds, the debtor transfers certain property or another asset having property value. Such a mechanism corresponds to relations among equal participants in civil circulation acting of their own free will. However, within the framework of the liquidation procedure, the application of this rule is limited. This is due to the fact that during liquidation the debtor's obligations are settled not on the basis of a personal arrangement between the parties but taking into account the interests of all creditors. Where the liquidation manager or a particular creditor concludes a "substitute performance" agreement with the debtor this may cause harm to other creditors or unjustifiably reduce the degree of satisfaction of their claims. Therefore, the law requires that a "debt forgiveness agreement" be concluded only where it has been agreed with the meeting of creditors or the committee of creditors.

Under this provision, the satisfaction of claims through novation of the obligation between the debtor and the creditor is not permitted, that is, through replacing the original obligation with a new obligation providing for a different subject matter or a different method of performance (Article 347 of the CC). This is because such an approach contradicts the very essence of the liquidation procedure, which consists in the precise accounting of all of the debtor's obligations and their final termination.

Furthermore, the conclusion of an agreement on novation of the debtor's obligations is deemed to be contrary to the purposes of the liquidation procedure. This may lead to a violation of the principle of equality of creditors, the granting of unjustified advantages to particular creditors or the artificial protraction of the liquidation process.

5. Part five of this article clearly defines the legal fate of creditors' claims during liquidation and gives an expansive interpretation of the concept of a "satisfied claim."

Under this provision, where, owing to the insufficiency of the debtor's property, particular creditors' claims have not actually been discharged in monetary funds or property but have been considered in the procedure for liquidation established by law, that is included by the liquidation manager in the register of creditors' claims and considered in accordance with the established order of priority, such claims are likewise deemed satisfied. The meaning of this provision is that the insufficiency of the debtor's property is not the fault of the creditor, and therefore in such cases the creditor's claim is deemed to be officially settled and concluded. Even where the debtor's financial capacity was limited, and actual discharge did not take place, from a legal standpoint the corresponding obligation is terminated.

Where the debtor's obligations were secured by third persons (a guarantor, a pledgor, an insurer and the like) the creditor's right is preserved in such cases. That is, even in the absence of monetary funds held by the debtor being liquidated, the creditor is entitled to bring claims against the person who provided the security. Therefore, in such cases the claim is not deemed satisfied.

Furthermore, the Law determines the legal fate of claims not recognized by the liquidation manager. Where, after refusal to recognize a claim, the creditor has not applied to the court, or the court has recognized such claim as unsubstantiated, it is likewise deemed satisfied. In a legal sense, this means the "legal termination of the claim," that is, the creditor's right to bring this claim is terminated, and the creditor is not subsequently entitled to reassert it on the same grounds.

This rule ensures the legal certainty and stability of the liquidation procedure. If unsatisfied or rejected claims were to remain open the liquidation procedure could never be completed. Therefore, the legislator has established that, subject to compliance with certain conditions, all claims are deemed to be legally settled (satisfied), which is a necessary ground for completing the liquidation of a legal entity.

6. This provision is aimed at ensuring accountability and transparency during liquidation. In this process, the liquidation manager is required to accurately enter in the register of creditors' claims information on the extent to which each creditor's claim has been satisfied or remains outstanding. This information subsequently serves as the principal source for legal assessment, the preparation of reports and the completion of the liquidation procedures. As a result, fair distribution among creditors is ensured and a legal basis is created for exercising public and judicial oversight of the liquidation manager's activity.

See also: International Commentary, p. 778.

Article 155. Oversight of the Liquidation Manager's Activity

The liquidation manager submits to the meeting of creditors or the committee of creditors, no less than once a month, a report on the manager's activity, information on the debtor's financial condition and its property at the time of the commencement of and during the liquidation proceedings, as well as other information.

The liquidation manager's report must contain the following information:

on the liquidation estate formed, including on the progress and results of the inventory of the debtor's property and on the progress and results of the appraisal of the debtor's property;

on the amount of monetary funds received into the debtor's single account and the source of these receipts;

on the progress of the realization of the debtor's property indicating the amounts received from the realization of property;

on the number and amount of claims for the collection of debt brought by the liquidation manager against third persons, including through judicial proceedings;

on measures to ensure the preservation of the debtor's property as well as to identify and recover the debtor's property held in the possession of third persons;

on measures to declare the debtor's transactions invalid as well as to give notice of refusal to perform the debtor's contracts;

on the work of maintaining the register of the debtor's creditors' claims indicating the total amount of creditors' claims entered in the register and separately for each order of priority;

on the number of the debtor's employees continuing to work during the liquidation proceedings and employees whose employment contracts have been terminated during the liquidation proceedings;

on the work carried out by the liquidation manager to close the debtor's accounts and its results;

on the amount of expenses for conducting the liquidation proceedings indicating their purpose.

The liquidation manager's report must also contain other information on the progress of the liquidation proceedings with respect to the debtor, the composition of which is determined by the liquidation manager as well as by the requirements of the meeting of creditors or the committee of creditors or the court.

The liquidation manager is required, at the court's request, to provide the court with all information relating to the conduct of the liquidation proceedings.

The article under commentary establishes the procedure for oversight of the liquidation manager's activity, under which the manager is required, no less than once a month, to submit to the meeting of creditors or the committee of creditors a report on the manager's activity, the debtor's financial condition and the progress of the liquidation procedure, as well as the necessary information. Furthermore, it provides for the duty to provide, at the court's request, all information relating to the conduct of the liquidation procedures.

1. This provision expresses the liquidation manager's duties based on the principles of accountability and openness. Under it the manager is required, no less than once a month, to report to the meeting of creditors or the committee of creditors. Through such a report, creditors continuously receive information on the debtor's financial condition, the progress of the liquidation procedure and the state of the property. This provision strengthens the liquidation manager's liability, ensures oversight by creditors and guarantees the transparency of the liquidation process.

2. Part two of this article establishes how complete and precise the content of the liquidation manager's report must be. Under it the report is not merely formal information but the principal document reflecting the actual state of the liquidation procedure for creditors and the court.

Firstly, the report must necessarily contain detailed information on the formation of the liquidation estate, that is, on the processes of identifying all of the debtor's property, conducting the inventory and appraisal. This allows creditors to learn the precise volume of the property and its actual value.

Secondly, the report indicates the movement of monetary funds in the debtor's single account, the funds received from the sale of property, and the sources of receipts—which ensures financial transparency.

Thirdly, the report must reflect the measures taken by the liquidation manager, for example, actions to collect the debtor's debt, declare transactions invalid, recover property, or terminate contracts.

Furthermore, the register of creditors' claims, matters relating to employees, actions to close accounts, and expenses incurred during the liquidation procedure must also be included in the report as an integral part of it.

Accordingly, this provision defines the liquidation manager's report as a transparent document based on responsibility and containing a set of managerial, financial and legal information. This serves to ensure creditors' trust, prevent abuses during liquidation and enable the effective exercise of judicial oversight.

3. This provision provides that the liquidation manager's report must not be limited only to the information established by law but must also include additional information based on the circumstances of the case and the needs of interested persons.

Firstly, this ensures the transparency of and oversight over the liquidation procedure by obliging the liquidation manager to include in the report any information that creditors or the court may request.

Secondly, "other information" is understood to mean additional information arising depending on the particular features of the liquidation procedure. For example in particular cases information on the expenses of preserving the debtor's assets, judicial proceedings on disputed transactions or difficulties encountered in appraising property may be important.

Thirdly, this provision grants the liquidation manager a certain latitude—the manager may include in the report not only the required information but also information the manager deems necessary for an objective assessment of the case. This strengthens the manager's role as a responsible person ensuring a balance of interests.

Also the participation of the meeting of creditors, the committee of creditors or the court in determining the content of the report allows comprehensive oversight to be exercised over the liquidation procedure. This is an important legal mechanism ensuring that liquidation is conducted fairly, openly and effectively.

4. This provision ensures judicial oversight of the liquidation procedure, that is the liquidation manager is required, at the court's request, to provide all information relating to the case proceedings in full and accurately. Through this the manager's

activity is assessed for compliance with the principles of lawfulness, objectivity and openness.

See also: International Commentary, p. 779.

Article 156. Release of the Liquidation Manager

The liquidation manager may be released by the court from performance of the manager's duties in the following cases:

at the manager's own request;

non-performance or improper performance of the duties imposed on the manager on the basis of a decision of the meeting of creditors. In this case the decision of the meeting of creditors must contain information on the candidacy for the new liquidation manager;

on the basis of an application of the authorized state body;

identification of circumstances in accordance with Article 22 of this Law that preclude a person's appointment as liquidation manager.

The liquidation manager may also be released from performance of the manager's duties in other cases in accordance with legislation.

Simultaneously with releasing the liquidation manager from performance of the manager's duties the court appoints a new liquidation manager in the procedure provided for by Article 142 of this Law.

A court ruling releasing the liquidation manager from performance of the manager's duties is subject to immediate execution and may be appealed against (a protest may be lodged against it).

The article under commentary establishes the procedure for the court to release the liquidation manager at the manager's own request, in connection with non-performance or improper performance of the manager's duties, at the request of the authorized body or the court, and also in other cases provided for by legislation. Furthermore, it defines the procedure for appointing a new liquidation manager and the procedure for executing the corresponding court ruling.

1. This provision establishes the legal grounds for releasing the liquidation manager from performance of the manager's duties and serves as an important mechanism for overseeing the manager's activity.

1.1. Where the liquidation manager does not wish, on the manager's own initiative, to continue performing the manager's duties, the manager is entitled to apply to the court with a petition to be released from performance of the manager's duties. In such a case, the court considers the manager's application and, where objective reasons exist—such as a deterioration in health, a conflict of interest or other valid circumstances—decides to release the liquidation manager from performance of the manager's duties. In this regard, so that the release of the liquidation manager does not disrupt the conduct of the liquidation procedure, the court simultaneously takes measures to appoint a new liquidation manager.

1.2. The liquidation manager may be released by the court from performance of the manager's duties on the basis of a decision of the meeting of creditors where the manager fails to perform or improperly performs the duties imposed on the manager by Article 144 of the Law and other regulatory legal acts (for example fails to conduct a full inventory and appraisal of the debtor's property, fails to provide information on the debtor's financial condition and the manager's own activity at creditors' request, fails to take measures to search for, identify and recover the debtor's property held by third persons).

In this regard the decision of the meeting of creditors must contain information on the new candidacy recommended for appointment as liquidation manager since ensuring the continuity of the liquidation procedure is of material importance.

1.3. The Agency, as the authorized state body, exercises oversight of the liquidation manager's activity in accordance with legislation. Where facts of a systematic or a single gross violation of legislation in the manager's activity are identified, the Agency applies to the court with an application to release the liquidation manager from performance of the manager's duties. This mechanism serves to ensure the lawfulness of the liquidation procedure and to protect state interests and the rights of creditors.

1.4. Where, after the liquidation manager's appointment, it is established during an inspection or during the period the manager exercises the manager's powers that one of the circumstances precluding the manager's appointment provided for by Article 22 of the Law exists, the court is entitled to release the manager from performance of the manager's duties.

In particular where evidence submitted by persons participating in the insolvency case exists the following circumstances constitute grounds for releasing the liquidation manager from performance of the manager's duties: 1) the existence of an interest with respect to the debtor or creditors; 2) the existence of an outstanding or unexpunged criminal record; 3) the manager having been recognized by a court as legally incapable; 4) the status of individual entrepreneur or natural person with respect to whom an insolvency procedure has been introduced; 5) previously having caused harm to the debtor or creditors while performing the duties of a judicial manager and not having compensated such harm; 6) the termination (revocation) or temporary suspension of the judicial manager's certificate on the basis of a decision of the authorized state body; 7) the establishment with respect to the manager of restrictions on carrying out activity to manage the affairs and (or) property of other persons.

2. Part two of this article establishes that in addition to the four grounds indicated above for releasing the liquidation manager from performance of the manager's duties, there may also be other cases provided for by legislation.

In other words, where the liquidation manager's activity is contrary to the requirements of the law, the principles of fairness and objectivity, or legal or ethical circumstances are identified that preclude the manager's full and good-faith

performance of the manager's duties, the court is entitled to assess such circumstances as grounds arising from other provisions of legislation.

Such cases may include, for example, the institution of administrative or criminal proceedings against the liquidation manager, the manager's violation of procedural rules while participating in judicial proceedings, abuse of procedural rights or the unjustified protraction of the liquidation procedure.

Accordingly, this provision serves as an important legal mechanism granting the court the possibility of adopting independent decisions based on the specific circumstances of the case in order to ensure the rule of law and the principles of fairness.

3. This provision is an important link in the legal system for the liquidation of a legal entity, the principal purpose of which is to ensure the lawfulness, objectivity and continuity of the liquidation process.

In this regard the following provisions are of material importance.

Firstly, the court's power to release the liquidation manager from performance of the manager's duties and appoint a new person is a principal guarantee for exercising state oversight during the liquidation of a legal entity. When adopting a decision, the court must not limit itself merely to the declaration of intent of the party that filed the application but is required to take into account the general interests of the liquidation procedure, that is, the legitimate interests of creditors, founders, and the state.

Secondly, the replacement of the liquidation manager does not affect the rights and obligations of the legal entity. In this case, only a replacement of the procedural person occurs. In this regard the legal results of the liquidation proceedings—the realization of property, the making of settlements, the establishment of accounts receivable and payable and other measures—remain unchanged.

Thirdly, from the moment of appointment of the new liquidation manager, the former manager is required to transfer all financial, legal and accounting documents under a transfer certificate. Such a certificate has the significance of a principal procedural document ensuring the continuity of the liquidation procedure.

Fourthly, when appointing a new liquidation manager, the court is required to take into account the manager's professional qualifications, the existence or absence of a conflict of interest, and the results of the manager's previous activity. Where the court fails to observe these criteria creditors or founders are entitled subsequently to appeal against such decision, which may entail a violation of the principle of lawfulness during the liquidation procedure.

Fifthly, the practical significance of this provision lies in the fact that it prevents any instances of the liquidation process being suspended or a lack of management. Where a time gap arises between the release of the liquidation manager from performance of the manager's duties and the appointment of a new person, a risk arises of the loss of the legal entity's property, its unlawful alienation, or harm being caused to creditors' interests. It is precisely for this reason that the law imposes on

the court the duty to simultaneously perform two actions—to release the acting liquidation manager from performance of the manager's duties and to appoint a new liquidation manager.

4. A court ruling releasing the liquidation manager from performance of the manager's duties is subject to immediate execution from the moment it is issued. This requirement ensures the continuity of the liquidation procedure and precludes the possibility of loss of property and harm being caused to creditors' interests. In this regard the right to appeal against the ruling or to lodge a protest is preserved, but this cannot serve as grounds for suspending its execution. Once the court issues the ruling, the powers of the acting liquidation manager are terminated and the court, where necessary, appoints a new or interim liquidation manager. This provision is aimed at ensuring the prompt and effective execution of judicial acts, the exercise of state oversight and the implementation of the principle of the rule of law.

Article 157. Possibility of Transitioning to External Management

Where judicial rehabilitation and (or) external management have not been introduced with respect to the debtor and during the liquidation proceedings sufficient grounds have arisen, including grounds confirmed by financial analysis data, to believe that the debtor's solvency may be restored the liquidation manager is required to convene the meeting of the debtor's creditors within one month of the identification of such circumstances for the purpose of considering the question of applying to the court with a petition to terminate the liquidation proceedings and transition to external management.

The decision to apply to the court with a petition to terminate the liquidation proceedings and transition to external management is adopted by a majority of the votes of the total number of creditors' claims not discharged at the time of the meeting of creditors considering the question of adopting such decision.

The decision of the meeting of creditors to apply to the court with a petition to terminate the liquidation proceedings and transition to external management must contain the proposed term of external management and the candidacy for external manager as well as information on that person.

The article under commentary establishes that where the possibility of restoring the debtor's solvency is reasonably established during the liquidation procedure, the liquidation manager is required, within one month, to convene the meeting of creditors, which is entitled to decide to apply to the court with a petition to terminate the liquidation procedure and transition to external management where the creditors consent to this.

1. This provision establishes one of the most important guarantee mechanisms of the liquidation procedure—the possibility of creating conditions for restoring the debtor's activity in cases where a real likelihood exists of restoring its solvency, without the final termination of its business activity.

This reflects the rehabilitative function of the liquidation proceedings. Its purpose is not only the liquidation of the debtor but also the restoration of sustainable production activity, the fuller satisfaction of creditors' claims and the preservation of the workforce. It is precisely for this reason that the legislator has preserved the possibility of assessing the prospects for restoring the debtor's solvency even at the liquidation stage.

Where such circumstances are identified the liquidation manager is required to confirm them not by subjective conclusions but by financial analysis data. This requirement serves as reliable evidence for the court and creditors. The analysis must clearly reflect the debtor's assets, debt burden, production potential and the anticipated sources of future income.

The "one-month term" provided for by this provision is mandatory, that is, obligatory, in nature. It strengthens the liquidation manager's liability and is aimed at preventing violations of legislation during the liquidation procedure. At the same time, convening the meeting of creditors ensures a collegial and open decision-making mechanism.

2. This provision establishes the procedure and conditions for adopting, during the liquidation procedure, an important decision—the decision to apply to the court with a petition to terminate the liquidation procedure and transition to external management.

First of all, it establishes that such a decision may be adopted only at the meeting of creditors. This in turn ensures a collegial, transparent decision-making procedure based on a balance of interests within the framework of the liquidation procedure.

"A majority of the votes of the total amount of unsatisfied creditors' claims" is established as the criterion for adopting the decision. This means that in practice it is not the personal interests of creditors but their economic weight that is of decisive importance. In this regard, the weight of each creditor's vote is determined in proportion to the amount of the creditor's claim.

It follows from the legal content of this provision that where the liquidation manager or the debtor puts forward the initiative to transition to external management, before applying to the court with the corresponding petition, creditors must collectively assess this possibility from the standpoint of their interests and determine whether it is economically expedient or inexpedient.

Accordingly, this provision not only ensures the protection of creditors' interests during the liquidation procedure but also guarantees that a democratically weighed and economically sound decision is adopted on the question of transitioning to external management. This reduces the likelihood of the court adopting a unilateral decision and helps to develop a fair decision with the participation of all interested parties.

3. This provision clearly defines what information must be contained in the decision of the meeting of creditors for applying to the court with a petition to transition from the liquidation procedure to external management.

Firstly, it is established that the decision of the meeting of creditors must necessarily indicate the proposed term of the external management procedure. This requirement is of significant organizational and legal importance since, in the absence of a specific term in the petition sent to the court, a risk arises that the external management procedure will become indefinite or will end up outside proper oversight. Indicating the proposed term allows both creditors and the court to assess the possibilities of restoring the debtor's solvency and the prospects of achieving a practical result.

Secondly, the decision in question must contain information on the candidate for the position of external manager as well as information on that person, including on the candidate holding a higher education degree and having no less than two years of work experience, having undergone certification with the authorized state body, or holding the status of an advocate holding a license specializing in the conduct of civil and economic court cases. This allows the court to assess the candidate's compliance with the requirements imposed on an external manager, since it is precisely the external manager who bears responsibility for the debtor's financial rehabilitation during the insolvency procedure and the results of the manager's activity directly affect creditors' interests.

See also: International Commentary, p. 779.

Article 158. Liquidation Manager's Report on the Results of the Liquidation Proceedings

After completing the settlements with creditors, the liquidation manager is required to submit to the court a report on the results of the liquidation proceedings.

The following are attached to the report on the results of the liquidation proceedings:

documents confirming the sale of the debtor's property;

the register of creditors' claims indicating the amount of discharged creditors' claims;

documents confirming the discharge of creditors' claims;

information on the debtor's property provided for by Article 159 of this Law.

The article under commentary establishes that after completing the realization of the debtor's property and settlements with creditors, the liquidation manager's duty is to submit to the court a report with documentary confirmation of all actions performed and results achieved.

1. Under this provision, after the settlements with creditors have been fully completed, the liquidation manager is required to submit a report to the court. This report must fully reflect all actions carried out during the liquidation procedure, including the identification of the debtor's property, its appraisal, realization,

distribution of the monetary funds received and the results of satisfying creditors' claims.

The legal essence of the duty to submit a report lies in the fact that it enables judicial oversight of the liquidation manager's activity to be exercised. On the basis of this report, the court assesses whether the liquidation procedure was conducted in accordance with the requirements of the law, whether creditors' interests were ensured, and whether violations of legislation were committed in realizing the debtor's property. Where deficiencies or violations of the law are identified in the report, the court is entitled to demand additional explanations from the liquidation manager or even consider the question of the manager's liability.

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44. Where necessary the report on the results of conducting the liquidation proceedings submitted by the liquidation manager in accordance **with Article 158 of the Law** is considered by the court at a court hearing in compliance with the requirements of part one of Article 168 of the EPC. Where the liquidation manager's report is recognized as substantiated the court issues a ruling completing the liquidation proceedings, while where the report is recognized as unsubstantiated the court issues a ruling refusing to complete the liquidation proceedings. In this case the question of completing the liquidation proceedings is considered after the deficiencies have been remedied and a new report submitted.

Courts should bear in mind that where creditors accept the debtor's property that was offered for sale but was not realized during the liquidation proceedings the court ruling completing the liquidation proceedings must indicate the names of the creditors and the property accepted by them in discharge of accounts payable.

2. This provision defines the list of documents that must be attached to the report submitted to the court after completion of the liquidation procedure. Its purpose is to enable a complete, documentarily confirmed, and transparent assessment of the liquidation manager's activity.

Firstly, it is necessary to attach documents confirming the realization of the debtor's property. These documents (auction records, sale and purchase agreements, settlement documents and the like) confirm that the liquidation manager actually carried out the sale of property, that is converted the assets into monetary form. They also demonstrate compliance with the requirements of legislation in realizing the property.

Secondly, the register of creditors' claims is attached to the report, representing an official list of all creditors indicating the amount of their claims and the degree of their satisfaction. This register reflects the procedure for satisfying claims during the liquidation procedure and serves as one of the principal oversight tools for the court.

Thirdly, documents confirming the satisfaction of creditors' claims must be submitted. These include payment orders, receipts, bank statements and other documents confirming the receipt of monetary funds. These documents attest to the actual performance of obligations to creditors.

Fourthly, information must be submitted to the court on the debtor's property remaining after satisfaction of creditors' claims. In particular, information must be submitted on the transfer of the remaining property to the founders (participants) of the debtor or the owner of the debtor's property after satisfaction of creditors' claims, as well as information that unrealized property was offered by the liquidation manager to creditors in discharge of accounts payable.

See also: International Commentary, p. 780.

Article 159. The Debtor's Property Remaining After Discharge of Creditors' Claims

Property remaining after satisfaction of the claims of the debtor's creditors is transferred to the founders (participants) of the debtor or the owner of the debtor's property.

The debtor's property that was offered for sale but not realized during the liquidation proceedings is offered by the liquidation manager to creditors in discharge of accounts payable. Within ten days of the date of receipt of the offer of unrealized property, a creditor shall notify the liquidation manager in writing of the creditor's consent to or refusal of acceptance of such property, or of referring the matter, in cases established by law, for consideration by the creditor's supervisory board or general meeting of founders (participants). A creditor's failure to submit written notice within the established term shall be treated as a refusal to accept the property.

Where creditors refuse to accept the debtor's property that was offered for sale but was not realized during the liquidation proceedings in discharge of their claims, the liquidation manager shall notify the local bodies of executive authority thereof in writing.

Within fifteen days of receipt of the notice, the local bodies of executive authority shall accept the property onto their balance sheet and bear all expenses for its maintenance.

Where there is a refusal or evasion of acceptance of the property, the liquidation manager is entitled to apply to the court with an application to compel the relevant body to accept such property. The court, on the basis of the documents on the transfer of the property, issues a ruling completing the liquidation proceedings.

Where the property of an enterprise a portion of whose charter fund (charter capital) belongs to the state was offered for sale but was not realized during the liquidation proceedings and creditors refuse to accept such property in discharge of their claims within the term of the liquidation proceedings of the debtor that is a legal entity the property passes into state ownership and the liquidation manager transfers it to the balance sheet of local bodies of executive

authority. The court, on the basis of the documents on the transfer of the property, issues a ruling completing the liquidation proceedings.

The article under commentary establishes the procedure for distributing the debtor's property remaining or not realized after satisfaction of creditors' claims and also determines its subsequent legal fate—return to the founders, an offer to creditors, or transfer into state ownership with entry onto the balance sheet of local authorities.

1. Under part one of this article property remaining after satisfaction of creditors' claims, including claims for court costs, payment of remuneration to judicial managers, current utility and operating payments, payments under writs of execution, taxes and duties, mandatory insurance, bank loans, claims secured and not secured by a pledge, as well as the claims of shareholders for accrued dividends, is subject to transfer to the founders (participants) of the debtor or the owner of the debtor's property. In particular, the founders or participants of the debtor are understood to mean the participants of a limited liability company and the shareholders of a joint-stock company, while the owner of the debtor's property is understood to mean the owner of a private or family enterprise.

2. This provision regulates the legal fate of the debtor's unrealized property during the liquidation proceedings and is aimed at protecting creditors' interests as well as at clearly defining the liquidation manager's duties.

Where during liquidation particular assets of the debtor (vehicles, buildings, equipment, and other property) were put up for sale but no buyer was found for them, the liquidation manager offers this property to creditors.

In response to such an offer from the liquidation manager, a creditor must choose one of the following three options: 1) agree to accept the property; 2) refuse to accept the property; 3) refer the matter for consideration by the supervisory board or the general meeting of founders (participants).

A creditor is required to notify the liquidation manager in writing of the creditor's decision on the liquidation manager's offer regarding the property within 10 days of the date of receipt of such offer. Where the creditor does not submit a written response to the offer within the established term the law treats such inaction as the creditor's refusal to accept the property; that is, silence is not in this case deemed consent.

Such a procedure prevents the liquidation procedure from being drawn out and precludes property from turning into a "dead asset," and also ensures equality of creditors' rights and helps to ensure certainty and promptness in the liquidation manager's activity.

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43. The debtor's property that was offered for sale but was not realized during the liquidation proceedings is offered by the liquidation manager to creditors for acceptance in discharge of accounts payable at the price established at the last auction.

Where the creditor's executive body has notified the liquidation manager of the need to refer this matter for consideration by the supervisory board or the general meeting of founders (participants) in cases provided for by law or the creditor's charter the liquidation manager shall give the creditor a reasonable time to submit the decision of the supervisory board or the general meeting of founders (participants). A creditor's failure to submit the decision within the established term shall be treated as a refusal to accept the property.

Where the creditor expresses consent to accept this property and the value of the property exceeds the creditor's claims the resulting difference is compensated in monetary form by the creditor accepting the property in satisfaction of the creditor's claims.

3. Under part three of the article, under commentary, where creditors refuse to accept unrealized property in satisfaction of their claims, the further fate of such property requires the involvement of the state.

Therefore, under the law, the liquidation manager is required to notify local state authorities of this in writing. Local state authorities are understood to mean the regional, district and city Kengashes of People's Deputies (representative bodies of state authority) as well as the khokims of regions, districts and cities (executive bodies of state authority). The Kengash of People's Deputies and the khokim exercise management of the property assets of the region, district or city within the limits established by the legislation of the Republic of Uzbekistan.

The notice sent to local state authorities serves as the legal basis for adopting a decision on subsequently entering the property onto the balance sheet, its storage or its use for state needs. Accordingly, this provision regulates the legal regime of so-called "ownerless property" that may arise during liquidation, and also ensures the accountability of the liquidation manager's activity.

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43. Where creditors refuse to accept the property in question in discharge of their claims or no communication is received from them within the established

term the liquidation manager shall notify the local state authority in writing of the acceptance of the property onto its balance sheet.

Where the local state authority refuses or evades acceptance of the property the liquidation manager is entitled to apply to the court with an application to compel the relevant body to accept the property in question.

Courts should consider the liquidation manager's application no later than the day following its receipt by the court, without notifying the persons participating in the case, and issue a ruling based on its results. The court ruling imposes on the local state authority the duty to accept the debtor's property.

Where the local state authority evades execution of the court ruling it is executed by a state bailiff in the procedure established by law on the basis of a writ of execution issued on the basis of the court ruling.

4. This provision constitutes an important guarantee mechanism aimed at preventing property from being removed from legal and economic circulation during liquidation, and imposes on the local state authorities the duty to accept the property onto their balance sheet within fifteen days of receipt of the notice.

"Acceptance onto the balance sheet" is understood to mean reflecting the property as an asset on the balance sheet of the corresponding state authority, determining its value and assuming the corresponding property liability.

The local state authority accepts the property onto its balance sheet and simultaneously assumes the duty to pay all expenses relating to its maintenance. Such expenses include the costs of repairing storage sites, security, servicing and the actual use of the property.

This procedure prevents instances of property being left ownerless or lost, that is, so-called "gradual property losses." At the same time, it gives state bodies the opportunity to use the property effectively or subsequently employ it for state needs.

Furthermore, this provision establishes the state's role as the property guarantor at the final stage of the liquidation procedure; that is, after the creditors' and the liquidation manager's responsibility for the property passes to the state.

5. Part five of this article is aimed at fully resolving the legal fate of property during liquidation, preventing it from being left without an owner and ensuring certainty in property relations.

Firstly, where both the creditors and the local state authorities have refused to accept the debtor's unrealized or unsold property, this places the liquidation manager in a difficult position, since, to complete the liquidation proceedings, the manager is required to settle all property matters. Therefore, the law grants the manager the right to apply to the court.

Secondly, the liquidation manager is entitled to apply to the court with an "application to compel acceptance of the property." Such an application is treated as a measure of legal effect through which the manager asks the court to impose on the corresponding state authority the duty to accept the property. Thereby, a situation in which the property remains in a legal vacuum is prevented.

Thirdly, when considering this matter, the court adopts a decision on the basis of documents confirming the transfer of the property, including inventory records, appraisal reports, the liquidation manager's reports, decisions of the meeting of creditors, and other documents relevant to the case.

Fourthly, where the court establishes that the corresponding state authority is unjustifiably evading acceptance of the property, it issues a ruling obliging that body to accept the property. Thereby, property liability is imposed on the state authorities, and they are required to perform all the duties relating to the storage and use of this property.

Fifthly, the issuance by the court of the corresponding ruling signifies the completion of the final stage of the liquidation proceedings; that is, having established that the question of the fate of the property has been fully resolved the court issues a ruling completing the proceedings on the liquidation case. Thereby, the legal entity's activity is deemed completed in a legal sense.

Sixthly, this provision strengthens the mechanism of judicial oversight, ensuring that property does not remain in a state of "legal uncertainty" owing to irresponsibility or inaction on the part of state bodies or other participants in the liquidation process.

Seventhly, in practice this rule strengthens accountability with respect to each unit of property, helps to determine its owner or manager and enables the liquidation proceedings to be completed on the basis of legal certainty.

6. Part six of this article establishes an important procedure aimed at determining the legal fate of the property of an enterprise with a state share during liquidation and ensuring a balance of property interests. Its content guarantees that upon the termination of the activity of legal entities with state participation, their assets will not be lost and will not remain in a state of legal uncertainty.

Firstly, this provision applies exclusively to enterprises a portion of whose charter fund belongs to the state. These include joint-stock companies, limited liability companies and other business entities with state participation.

Secondly, where, during the liquidation of such an enterprise, part of its assets was put up for sale but was not realized, that is, no buyer was found, or the auction did not result in the sale of the property, such property remains in a "suspended state." The law provides for a clear solution in this case—the property in question must pass into state ownership.

Thirdly, such a situation arises only where creditors have refused to accept this property in satisfaction of their claims. Accordingly, the law treats the transfer of property into state ownership as a measure of last resort: first the property is offered to creditors, then it is transferred to the balance sheet of the local state authority. This ensures chronological and legal consistency in property relations.

Fourthly, after the property passes into state ownership, it is the liquidation manager's duty to transfer it to the balance sheet of the local state authority. Thereby

the property is transferred to the state and the corresponding financial and managerial responsibility passes to the local state authority.

Fifthly, this procedure ensures the preservation of state property and its effective use. Where such assets are not accepted onto the balance sheet, they may remain without proper management and fall out of economic circulation. Therefore, the local state authority takes the necessary measures for their preservation, reuse, or adaptation for state needs.

Sixthly, the court considers the case on the basis of documents confirming the transfer of the property, including the transfer certificate, the liquidation manager's report, the decision of the local state authority to accept the property, and other relevant materials. On the basis of these documents, the court issues a ruling completing the proceedings on the liquidation case.

Seventhly, from the moment the court ruling is issued, the legal entity's activity is officially terminated and the fate of the property is deemed finally determined—it passes into state ownership. This ensures state guarantees in property relations and helps to strengthen the stability of the economic system.

In summary, it should be noted that this provision constitutes an important legal mechanism ensuring the legal certainty of property matters upon the liquidation of enterprises with state participation, preventing the loss of state property and guaranteeing the lawful completion of the liquidation procedure.

Article 160. Completion of the Liquidation Proceedings

After considering the report on the results of conducting the liquidation proceedings submitted by the liquidation manager, the court issues a ruling completing the liquidation proceedings and requires the liquidation manager to submit this ruling within ten days to the body carrying out state registration of legal entities.

The court ruling is the grounds for entering a record of the debtor's liquidation in the unified state register of legal entities. The corresponding record must be entered in the Unified State Register no later than three working days from the submission of the court ruling in question.

From the moment the record of the debtor's liquidation is entered in the Unified State Register of Legal Persons, the liquidation manager's powers are terminated, the liquidation proceedings are deemed completed, and the debtor is deemed liquidated.

The article under commentary establishes that, on the basis of the liquidation manager's report, the court issues a ruling that constitutes the grounds for entering a record of the liquidation of the legal entity in the state register, and from that moment the legal entity's activity is deemed officially terminated.

1. This provision regulates the final stage of the liquidation procedure and establishes the legal mechanism constituting the grounds for the official termination

of the legal entity's activity. A detailed analysis of the content of this article reveals the following principal aspects.

Firstly, the most important stage of the liquidation procedure is the court's consideration of the liquidation manager's report. The report must reflect in detail all the measures carried out during liquidation: the realization of property, the discharge of debt, the satisfaction of creditors' claims, the collection of accounts receivable, the making of financial settlements and the determination of the fate of the remaining assets. This report allows the court to assess whether the liquidation procedure has actually been completed.

Secondly, after considering the report, where the liquidation manager has complied with the requirements of legislation and no unresolved matters remain, the court issues a ruling completing the proceedings in the liquidation case.

Thirdly, this provision imposes on the liquidation manager an important procedural duty—to submit the court ruling within ten days to the body carrying out state registration of legal entities. This term is aimed at ensuring legal certainty and promptness, as well as preventing the unjustified protraction of the liquidation procedure.

2. Under the Regulation "On the Procedure for Maintaining the Unified State Register of Business Entities," approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 66 of 9 February 2017, this Register is an open state electronic information resource intended for general access, containing the principal information on the formation, reorganization and liquidation of business entities that are legal entities, on natural persons obtaining the status of individual entrepreneur, on the suspension and termination by natural persons of activity as individual entrepreneurs, and other information.

This Register is formed and maintained by the Public Service Centers, and the information contained in it is posted on the Unified Interactive Portal of State Services of the Republic of Uzbekistan. The grounds for entering a record in the Register are: a) the removal of a business entity from the Register; b) a business entity being declared bankrupt. A record is entered in the Register as follows: a) through automated software and hardware tools—automatically in real time; b) by a Public Service Center—within two working days of the grounds for entering the record arising.

A court ruling completing the proceedings on the liquidation case is the legal grounds for entering a record in the Unified State Register of Legal Persons. After the liquidation manager submits the court ruling to the Public Service Center, the corresponding record must be entered in the Unified State Register no later than three working days thereafter. This term is an important legal requirement ensuring the accountability of the state registration body and promptness in the field of legal relations.

The entry of the record signifies the occurrence of the practical legal consequence of liquidation. From this moment, the legal entity's activity is terminated, its name is removed from the state register, and it ceases to exist as a subject of law.

3. This provision clearly defines the final stage of the termination of a legal entity's activity from a legal and practical standpoint. The moment a record of the debtor's liquidation is entered in the unified state register on the basis of a court ruling is deemed the official completion of the liquidation procedure.

Firstly, it is provided that the liquidation manager's powers are also terminated precisely from that moment—from the moment the record is entered in the unified state register. This means that the liquidation manager can no longer perform any actions on behalf of the debtor and is deprived of the powers to manage property, submit reports, or conclude agreements.

Secondly, the expression "the proceedings on the liquidation case have been completed" means that the process has been completed not only in judicial proceedings but also at all enforcement and administrative stages. From a practical standpoint, these provisions create clear criteria for terminating legal relations, closing financial settlements, and carrying out archival procedures. Accordingly, the liquidation report has been accepted by the court, the assets have been distributed, settlements with creditors have been made, and the legal fate of the property has been determined.

Thirdly, after the record of the legal entity's liquidation is entered in the unified state register of legal entities, the liquidation of the legal entity is deemed completed, and the legal entity's activity is deemed terminated. The liquidation of the legal entity also entails the termination of its rights and obligations without their passing to another person by way of succession.

The legal expression "the debtor is deemed liquidated" establishes a statutory presumption of the termination of its activity. In this regard, for state bodies, creditors, and other entities, this record is official and mandatory information on the legal entity's non-existence.

This record is the grounds for recognizing the termination of the legal entity's legal capacity. This deprives it of the right to own or hold in operative management separate property, to be liable for its obligations with this property, to acquire and exercise property and personal non-property rights in its own name, to perform obligations, and to act as a claimant or respondent in court.

See also: International Commentary, p. 780.

CHAPTER 12. SETTLEMENT AGREEMENT

Article 161. Procedure for Concluding a Settlement Agreement

At any stage of the court's consideration of an insolvency case, the debtor and the creditors have the right to conclude a settlement agreement.

A decision to conclude a settlement agreement on behalf of the creditors is adopted by the meeting of creditors. A decision of the meeting of creditors to conclude a settlement agreement is adopted by a majority of votes of the creditors of the first, second and third groups and is deemed adopted provided that all creditors under obligations secured by a pledge of the debtor's property have voted in favor of it. The authority of a creditor's representative to vote on the matter of concluding a settlement agreement must be specifically provided for in the representative's power of attorney.

A settlement agreement is concluded on behalf of the debtor, as applicable, by the individual entrepreneur debtor or the debtor's manager, the external manager, the liquidation manager or the financial manager.

Participation in a settlement agreement is permitted for third parties that assume the rights and obligations provided for by the settlement agreement.

A settlement agreement is subject to approval by the court, on which a ruling is issued specifying the termination of the insolvency proceedings. If the settlement agreement is concluded in the course of liquidation proceedings, the court issues a ruling approving the settlement agreement, which specifies that the decision to declare the debtor bankrupt and to commence liquidation proceedings is not subject to enforcement.

A settlement agreement enters into force for the debtor, the creditors and the third parties participating in the settlement agreement as of the day of its approval by the court and is binding upon them. Unilateral refusal to perform a settlement agreement that has entered into force is not permitted.

A creditor that voted in favor of concluding the settlement agreement, the founders (participants), or the owner of the debtor's property has the right to perform the monetary obligations and (or) the obligations for taxes and duties of the debtor toward the creditors that voted against concluding the settlement agreement or did not take part in the voting. In this case, the creditor is obliged to accept the performance offered on behalf of the debtor, and the rights of claim of the creditor under the obligation pass to the person that performed the debtor's obligations.

Third parties have the right to provide suretyships or guarantees of the debtor's performance of monetary obligations and (or) the obligation for taxes and duties under the settlement agreement, as well as to otherwise secure its proper performance. If a condition of the settlement agreement is the alienation of the debtor's property in favor of a third party, then it may be concluded only on the condition that the said property is provided by the third party as a pledge securing the satisfaction of the creditors' claims.

The commented article establishes the procedure for concluding a settlement agreement, the procedure for the meeting of creditors to adopt a decision on its

conclusion, the persons authorized to conclude a settlement agreement on behalf of the debtor, the procedure for the court's approval of a settlement agreement and its legal consequences, as well as the cases of participation of third parties in a settlement agreement.

1. Part one of this article grants the participants in insolvency proceedings the right to conclude a settlement agreement at any stage, which allows the participants and the court to save time and resources. In accordance with Article 3 of the Law, a settlement agreement is understood to mean an agreement of the parties on the termination of insolvency proceedings on the basis of mutual concessions. This definition presupposes concessions both on the part of the debtor and on the part of the creditors, for example, an installment schedule for repaying the indebtedness, an extension of the period for performing the obligation, or a waiver of part of the debt. Thus, the legislature has established a mechanism for restoring the debtor's solvency with minimal involvement of the judicial system.

2. In terms of its legal nature, a settlement agreement is at the same time a civil-law transaction entailing procedural consequences, since insolvency proceedings are terminated from the moment of its approval.

This provision establishes the procedure for the creditors to conclude a settlement agreement, whereby the decision is adopted by a majority of votes of the creditors of the first, second and third groups specified in Article 13 of the Law. It may be concluded that creditors who voted against the adoption of such a decision or did not take part in the voting are likewise obliged to comply with the terms of the settlement agreement. This distinguishes a settlement agreement from other civil-law transactions, which require the consent of all parties.

If the debtor's obligation is secured by a pledge of property, a decision to conclude a settlement agreement is deemed adopted only where all creditors have voted in favor of its approval.

Another feature of a settlement agreement is the participation in it of tax and other authorized bodies that are subjects of public-law relations.

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49. The terms of a settlement agreement concluded in accordance with the Law extend only to those claims that are included in the register of creditors' claims as of the date of the meeting of creditors that adopted the decision on its conclusion.

Creditors whose claims were not included in the register of creditors' claims have the right, under the general procedure, to present their claims after the approval of the settlement agreement and the termination of the insolvency proceedings, without regard to the terms of the settlement agreement.

Courts should bear in mind that, when considering the matter of concluding a settlement agreement, the right to vote at the meeting of creditors is held by the first, second and third groups of creditors, and the decision is deemed adopted if a majority of the votes of the creditors of the said groups present at the meeting voted in favor of it.

The conclusion of a settlement agreement is an important procedural act, and therefore the legislator requires that this authority be separately specified in the power of attorney of the creditor's representative.

3. Part three of this article defines a specific range of responsible persons who have the right to sign a settlement agreement on behalf of the debtor depending on the stage of the insolvency proceedings.

In particular, the debtor who is an individual entrepreneur acts in its own name and personally signs the agreement. The debtor's manager, since at the stage of the observation procedure the manager retains their powers, also has the right to sign a settlement agreement.

When external management is introduced, the powers of the enterprise's manager are suspended, and management passes to the external manager. Consequently, at this stage the right to conclude the agreement belongs exclusively to the external manager. After the commencement of liquidation proceedings, the settlement agreement is signed by the person managing the process of the debtor's liquidation and the sale of its property, that is, the liquidation manager. The financial manager, in turn, mainly has the authority to conclude a settlement agreement in the course of the consideration of an insolvency case concerning a natural person.

This rule is aimed at ensuring the lawfulness of the settlement agreement and preventing the signing of the document by persons who do not have the corresponding authority.

4. The legislator permits participation in a settlement agreement by third parties that are not participants in the proceedings but assume the rights and obligations provided for by the settlement agreement.

The concept of "third parties" in insolvency proceedings should be distinguished from "third parties" in judicial proceedings—persons asserting independent claims regarding the subject matter of the dispute or persons not asserting independent claims regarding the subject matter of the dispute. In the first case, the third parties have no connection whatsoever with the debtor in the disputed legal relations, whereas in the second case, the third parties are in substantive-legal relations with the claimant and the respondent in the case.

Third parties may be persons that perform the debtor's obligations toward its creditors or that repay the debtor's indebtedness. The ways in which third parties may participate are established below, in part 8 of this commented article.

5. In accordance with Article 57 of the Law, where a settlement agreement is concluded between the parties and approved by the court, the insolvency proceedings

are terminated by a ruling of the court. In this connection, the court issues a ruling approving the settlement agreement and terminating the proceedings, whereby this ruling must specify that the insolvency proceedings have been terminated.

The procedural effect of such a ruling is equated to a court judgment secured by measures of compulsory enforcement. If, in the course of liquidation proceedings, the parties have concluded a settlement agreement, the court issues a ruling approving the settlement agreement, which specifies that the decision to declare the debtor bankrupt and to commence liquidation proceedings is not subject to enforcement.

6. From the moment the court approves the settlement agreement, it acquires binding legal force for the debtor, the creditors, and the third parties participating in the process. This document establishes a new procedure for the performance of obligations, and compliance with its terms is binding for all participants.

Thus, a settlement agreement constitutes not merely a contract between the parties but a legal obligation fixed by a judicial act and subject to mandatory performance.

After the court approves the settlement agreement, neither party has the right to unilaterally repudiate its terms or evade their performance. This means that neither the debtor nor the creditors may, at their own discretion, fail to perform or refuse to perform the terms of the agreement. A settlement agreement may be annulled or amended only under the procedure provided for by the legislation, where the corresponding procedural grounds exist.

7. The legislator provides the possibility of substituting for the debtor a certain group of persons—a creditor that voted in favor of concluding the settlement agreement, as well as the founders (participants) of the debtor or the owner of the debtor's property—whereby the monetary obligations and/or the obligations for taxes and duties of the debtor are performed toward the creditors that voted against concluding the settlement agreement or did not take part in the voting.

This rule allows the persons who supported the settlement agreement to perform the obligations in place of the debtor in order to ensure its implementation. As a result, the interests of the creditors that opposed the settlement agreement are also guaranteed.

Upon the substitution of such persons, the creditor accepts the performance offered on behalf of the debtor; that is, it does not have the right to refuse performance depending on precisely who renders it. In accordance with the provisions of Chapter 23 of the CC, the rights of claim of the creditor under the corresponding obligation pass to the person who performed the debtor's obligations. In other words, the right of claim of the creditor under this obligation passes to the person who performed the debtor's obligations (subrogation). This affords the person who performed the obligation the possibility of presenting claims against the debtor by way of recourse.

8. In a settlement agreement, third parties have the right to assume obligations to secure the performance of the debtor's monetary obligations and (or) obligations for taxes and duties (suretyship, guarantee). It follows from the meaning of this part that this is not an exhaustive list, and other ways of securing the performance of obligations that are not prohibited by the legislation may also be used. As regards "proper performance," the legislation does not provide a separate definition of it. Pursuant to Article 236 of the CC, obligations must be performed properly in accordance with the terms of the obligation and the requirements of the legislation and, in the absence of such terms and requirements, in accordance with business customs or other usually imposed requirements. Consequently, the obligations provided for by a settlement agreement must be performed precisely in this manner.

If, in accordance with the terms of the settlement agreement, the debtor transfers property in favor of a third party, such property may be transferred on the condition that it be pledged for the purpose of satisfying the creditors' claims.

See also: International Commentary, p. 783.

Article 162. Features of Concluding a Settlement Agreement in Insolvency Procedures

A decision to conclude a settlement agreement on the part of the debtor is adopted, in the observation and judicial rehabilitation procedures, by the debtor's manager and, in the event of the manager's removal from the performance of their duties, by the judicial manager.

If, for the debtor, a settlement agreement is a transaction that, in accordance with the legislation or the debtor's constituent documents, is entered into pursuant to a decision (approval) of the debtor's management bodies, a decision to conclude the settlement agreement on behalf of the debtor may be adopted after the corresponding decision (approval). When concluding a settlement agreement in the external management and liquidation procedures, no such decision (approval) is required.

When concluding a settlement agreement with the participation of third parties that are interested parties in relation to the debtor, the judicial manager or a creditor, the settlement agreement must contain information that it is a transaction in the performance of which there is an interest, indicating the nature of such interest. A settlement agreement extends to the claims of creditors the term for performance of which fell due as of the date of introduction of the relevant insolvency procedure, with the exception of obligations that arose after the initiation of the insolvency case.

The commented article defines the features of concluding a settlement agreement in the course of insolvency procedures, the persons authorized to adopt a decision to conclude a settlement agreement on behalf of the debtor, the powers of the debtor's management bodies when concluding a settlement agreement, as well as

the procedure for concluding a settlement agreement with the participation of interested third parties.

1. During the observation and judicial rehabilitation periods, a decision to conclude a settlement agreement is adopted by the debtor's manager and, in the event of the manager's removal from office, by the judicial manager.

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50. If, in the observation procedure, the powers of the management body of the legal entity debtor were terminated by a ruling of the court and vested in the interim manager, then the settlement agreement on behalf of the debtor is signed by the interim manager.

2. Part two of this article establishes the procedure for obtaining the corresponding consent from the debtor's management bodies when concluding a settlement agreement in accordance with the legislation or the debtor's constituent documents.

Under external management, the debtor's manager is removed from the performance of their duties, and the management of the debtor's affairs is vested in the external manager (Article 109). From the moment the court adopts a decision to declare the debtor bankrupt and to introduce the liquidation procedure, the debtor's management bodies are removed from the performance of the functions of managing and disposing of the debtor's property (Article 141). In such a case, the adoption (approval) of a decision to conclude a settlement agreement is not required.

3. The range of persons that are interested parties in relation to the legal entity debtor, the judicial manager, or a creditor is established by Article 21. They include: (a) a legal entity that, in accordance with the legislation, is a parent or dependent legal entity in relation to the debtor; (b) the debtor's manager, as well as the persons forming part of the supervisory board or the collegial executive body and the chief accountant (accountant), including in cases where the employment contract concluded with them was terminated within one year prior to the initiation of the insolvency case; (c) the founders (participants) of the legal entity or the owner of the debtor's property.

In this Law, interested parties in relation to a natural person, as well as to a debtor-individual entrepreneur, are understood to mean their spouse, direct relatives in the ascending and descending lines of kinship, brothers and sisters and their relatives in the descending line of kinship, and the parents, brothers and sisters of the spouse.

The legislator requires that the nature of such interest be indicated in the settlement agreement, as well as information that this transaction is a transaction with the participation of an interested party.

A settlement agreement extends to the claims of creditors the term for performance of which fell due as of the moment of the initiation of the insolvency case. This means that a settlement agreement includes only the existing and enforceable obligations of the debtor toward the creditors that were formed prior to the initiation of the case or prior to the corresponding date of the commencement of the proceedings. Obligations arising after the initiation of the insolvency case are excluded from its scope of operation. Such obligations are termed current payments. In accordance with Article 4 of this Law, current payments are monetary obligations and (or) obligations for taxes and duties that arose as of the date of the commencement of the insolvency proceedings. Such a delimitation prevents possible abuses whereby the debtor could, by means of a settlement agreement, be released from the performance of obligations that arose in the course of the insolvency proceedings. In addition, it guarantees the protection of the rights of persons that entered into legal relations with the debtor after the commencement of the insolvency proceedings.

Article 163. Execution of a Settlement Agreement

A settlement agreement is concluded in written form.

On behalf of the debtor, the settlement agreement is signed, as applicable, by the individual entrepreneur debtor, the debtor's manager or the judicial manager. On behalf of the creditors, the settlement agreement is signed by the person authorized by the meeting of creditors.

If third parties participate in the settlement agreement, the settlement agreement is signed on their behalf by those persons or their representatives.

The commented article defines the procedure for the execution of a settlement agreement, as well as the persons authorized to sign it on behalf of the debtor, the creditors and third parties.

1. A settlement agreement, as a civil-law transaction, is concluded in written form. This requirement ensures its legal force, clarity in the expression of its content and the possibility of its approval by the court.

The written form requires that the terms of the settlement agreement, the rights and obligations of the parties, the procedure for performance and the time periods be set out precisely and clearly. This ensures legal certainty in the subsequent interpretation of the agreement or in the event of a dispute arising over the matter of its performance. The general procedure for concluding transactions is governed by Chapter 9 of the CC.

2. Part two of this article defines the range of persons authorized to conclude a settlement agreement on behalf of the debtor.

On behalf of the debtor, the settlement agreement is signed, as applicable, by the individual entrepreneur debtor, the debtor's manager where the debtor is a legal entity or, in the cases provided for by the legislation, the judicial manager.

On behalf of the creditors, the settlement agreement is signed by the person duly authorized by the meeting of creditors. In this way, the common will of the creditors is officially expressed, and the lawfulness of the agreement is ensured.

In accordance with Article 12 of this Law, a decision to conclude a settlement agreement falls within the exclusive competence of the meeting of creditors. Information about the person authorized by the meeting of creditors to sign the settlement agreement may be entered into the minutes of the meeting of creditors.

3. It is established that a settlement agreement on behalf of third parties is signed by those persons themselves or by their representatives. This confirms the third parties' consent to the terms of the settlement agreement and their voluntary acceptance of the obligations placed upon them. In addition, where the agreement is signed by a representative, the existence of the corresponding authority must be confirmed by documents in accordance with the legislation.

Article 164. Content of a Settlement Agreement

A settlement agreement must contain provisions on the amounts, procedure and time periods for the performance of the debtor's monetary obligations and (or) on the termination of the debtor's monetary obligations by the provision of consideration in lieu, novation of the obligation, forgiveness of the debt or other means provided for by the legislation.

A settlement agreement may contain conditions:

on the deferral or installment schedule for the performance of monetary obligations;

on the assignment of the debtor's rights of claim in favor of another;

on the performance of the debtor's monetary obligations by third parties;

on a discount off the debt;

on changing the time periods and procedure for the payment of taxes and duties;

on the satisfaction of the creditors' claims by other means that do not contradict the legislation.

The terms of a settlement agreement for creditors that did not take part in the voting on the matter of concluding the settlement agreement, as well as those that voted against its conclusion, may not be worse than those for creditors of the same rank that voted in favor of its conclusion.

Unless otherwise provided by the settlement agreement, the pledge of the debtor's property securing the debtor's performance of the obligations it has assumed is retained.

The commented article establishes the requirements for the content of a settlement agreement, the rights of creditors that did not take part in the voting on

the matter of concluding the settlement agreement or that voted against its conclusion, as well as the provisions relating to the pledge of property.

1. This provision establishes that a settlement agreement must contain provisions on the amount, the procedure (a lump-sum payment, an installment schedule, performance in kind and other means) and the time periods for the debtor's performance of monetary obligations, as well as on the means of terminating the obligations (consideration in lieu, novation of the obligation, forgiveness of the debt and other means permitted by the legislation).

2. Part two of this article provides for additional conditions of a settlement agreement that the parties may make use of: (1) deferral or an installment schedule for the performance of obligations; (2) assignment of the right of claim in favor of another person (cession); (3) performance of obligations by third parties; (4) the provision of a discount on the indebtedness (forgiveness of part of the debt); (5) changing the terms and procedure for the payment of taxes and duties; (6) other means of satisfying claims that do not contradict the legislation.

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51. The provision of financial support to the debtor by granting it a deferral, an installment schedule and (or) a discount off the debts owed to the creditors should be regarded as the subject matter of a settlement agreement and not as a measure for restoring the debtor's financial position in the course of another insolvency procedure.

3. Pursuant to this provision, when concluding a settlement agreement, the infringement of the rights of creditors that did not take part in the voting or that voted against the conclusion of the agreement is not permitted. In this regard, the conditions established for them may not be more onerous or less favorable in comparison with creditors of the same rank that supported the conclusion of the settlement agreement. For example, if one of the creditors of a particular rank that voted in favor of the settlement agreement is set to receive 70% of the amount of its indebtedness, then a less favorable condition, in the form of payment of only 50% of the indebtedness, may not be established for another creditor that voted against. This provision is aimed at ensuring the principles of equality and fairness among creditors, as well as at preventing the restriction of the rights of individual creditors.

4. Pursuant to this provision, unless a different procedure is established in the settlement agreement, a pledge provided to secure the performance of the debtor's obligations retains its force; that is, the mere fact of concluding a settlement agreement does not automatically terminate the pledge right. For example, if the debtor, in order to secure the performance of the indebtedness toward a bank,

provided a building as a pledge, then, after the conclusion of the settlement agreement, this pledge is retained unless the agreement provides for its termination or amendment. This provision is aimed at retaining the security for the creditor's claims, guaranteeing the debtor's performance of its obligations and protecting the interests of creditors whose claims are secured by a pledge.

See also: International Commentary, p. 783.

Article 165. Conditions for the Court's Approval of a Settlement Agreement

A settlement agreement may be approved by the court only after the repayment of the expenses and the satisfaction of the claims provided for by part one of Article 150 of this Law, and the claims under payment documents providing for the disbursement of funds for the payment of wages.

The debtor, the external manager or the liquidation manager must, within five days of the moment of signing the settlement agreement, submit to the court an application for the approval of the settlement agreement.

The following must be attached to the application for the approval of a settlement agreement:

the text of the settlement agreement;

the minutes of the meeting of creditors that adopted the decision to conclude the settlement agreement;

the register of the debtor's creditors' claims;

documents confirming the repayment of the expenses and the satisfaction of the claims specified in part one of this article;

the written objections of the creditors that did not take part in the voting on the matter of concluding the settlement agreement or that voted against the conclusion of the settlement agreement.

Other documents may also be attached to the application for the approval of a settlement agreement in accordance with the legislation.

The court notifies the interested parties of the date of consideration of the settlement agreement. The failure of the notified persons to appear does not impede the consideration of the insolvency case.

The commented article establishes the conditions for the court's approval of a settlement agreement, the time periods for filing an application for the approval of a settlement agreement and the list of documents attached to it, as well as the procedure for the court's consideration of a settlement agreement.

1. Pursuant to this provision, the court's approval of a settlement agreement is linked to the requirements concerning the payment documents confirming the provision of funds for the payment of wages, as well as to the reimbursement of expenses and the out-of-turn satisfaction of the claims provided for by part one of Article 150 of the Law, which include: (1) court expenses; (2) expenses relating to the payment of remuneration to the judicial managers; (3) current utility and operating payments; (4) expenses for the insurance of the debtor's property; (5) claims under the debtor's current payment obligations that arose after the initiation

of the insolvency case; (6) the claims of a citizen toward whom the debtor bears liability, in accordance with the law, for causing harm to their life or health.

2. Pursuant to this provision, after signing the settlement agreement, the debtor, the external manager, or the liquidation manager is obliged, within five days, to apply to the court for its approval in order to give this agreement legal force. For example, if an agreement on the procedure for repaying the indebtedness has been reached between the creditors and the debtor and the agreement has been signed, it does not enter into force automatically but requires approval by the court. If the application to the court is not made within the established time period, the process of executing the settlement agreement may be delayed, or legal problems relating to its performance may arise. This provision is aimed at promptly submitting the settlement agreement for judicial control and ensuring the orderly completion of the insolvency procedure.

3. Pursuant to this provision, for the court to approve a settlement agreement, not only the application itself but also the necessary documents confirming the lawfulness and validity of the conclusion of the settlement agreement must be submitted to the court. In particular, the following must be attached to the application: the text of the settlement agreement (Article 164 of the Law), the minutes of the meeting of creditors at which the decision on its conclusion was adopted (Article 16 of the Law), the register of creditors' claims (Article 18 of the Law), documents confirming the coverage of the established expenses and the satisfaction of the claims, as well as the written objections of the creditors that opposed the conclusion of the settlement agreement or did not take part in the voting. For example, by means of these documents the court verifies whether the rights of the creditors have been violated and whether the settlement agreement complies with the requirements of the legislation. This provision is aimed at approving a settlement agreement in a transparent and lawful manner, as well as at protecting the interests of all participants.

4. Pursuant to this provision, in addition to the documents expressly listed in the law, other supplementary documents may also be attached to the application for the approval of a settlement agreement in accordance with the legislation, having regard to the circumstances of the case. For example, the court may require additional accounting documents, audit reports or letters of guarantee in order to determine the debtor's financial position, the validity of the creditors' claims or the possibility of performing the settlement agreement. This provision is aimed at affording the court the possibility of assessing the settlement agreement comprehensively and objectively, as well as at ensuring full protection of the interests of the creditors and the debtor.

5. Pursuant to this provision, the court is obliged to notify in advance the interested parties participating in the case of the time and place of the consideration of the settlement agreement; however, their failure to appear at the court session does not impede the consideration of the case. For example, if one of the creditors or the debtor's representative failed to appear at the court session but they were duly

notified, the court continues the consideration of the settlement agreement. This provision is aimed at preventing the artificial delaying of the proceedings, as well as at ensuring the promptness and efficiency of the judicial process.

See also: International Commentary, p. 783.

Article 166. Consequences of the Court's Approval of a Settlement Agreement

The court's approval of a settlement agreement in the course of the observation, judicial rehabilitation, external management and liquidation procedures is a ground for the termination of the insolvency proceedings.

As of the day of the court's approval of the settlement agreement, the powers of the judicial managers are terminated. The external manager and the liquidation manager of a legal entity debtor continue to perform their powers until the moment of the election (appointment) of the debtor's manager.

As of the day of the approval of the settlement agreement, as applicable, the individual entrepreneur debtor or the debtor's manager, the external manager or the liquidation manager, or a third party, commences the repayment of the indebtedness toward the creditors.

The commented article establishes the consequences of the court's approval of a settlement agreement, its legal effect on the powers of the judicial managers, as well as the moment from which the debtor or a third party commences the repayment of the indebtedness toward the creditors.

1. Pursuant to this provision, if, at the stages of observation, judicial rehabilitation, external management or liquidation proceedings, a settlement agreement concluded between the creditors and the debtor is approved by the court, the insolvency proceedings are terminated. For example, if, in the course of external management, the debtor and the creditors reached an agreement on the procedure for repaying the indebtedness, and the court approved this settlement agreement, then the need to continue the insolvency procedure falls away. This provision is aimed at affording the parties the possibility of resolving the dispute on the basis of mutual agreement, preserving the debtor's activity and reducing judicial procedures.

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50. In the event of the conclusion of a settlement agreement in the course of insolvency proceedings concerning a natural person, the implementation of the plan for the restructuring of their debts is terminated, as is the operation of the moratorium on the satisfaction of the creditors' claims (part four of Article 225 of the Law).

If, in the observation procedure, the powers of the management body of the legal entity debtor were terminated by a ruling of the court and vested in the interim manager, then the settlement agreement on behalf of the debtor is signed by the interim manager.

In the event of the approval of a settlement agreement concluded in the course of liquidation proceedings, the court must specify in the ruling that the decision to declare the debtor bankrupt and to open liquidation proceedings is not subject to enforcement on the basis of part five of Article 161 of the Law, and that the insolvency proceedings are subject to termination on the basis of paragraph 7 of Article 110 of the Economic Procedure Code.

2. Pursuant to this provision, from the moment of the court's approval of the settlement agreement, the powers of the judicial managers are terminated, since the insolvency procedure is deemed completed. However, the external manager or the liquidation manager temporarily continues to perform their duties until the election or appointment of a new manager of the legal entity debtor. For example, if, after the approval of the settlement agreement, a new director of the enterprise has not yet been appointed, the external manager continues to exercise management so that the activity of the enterprise is not suspended. This provision is aimed at preventing an interruption in management, ensuring the orderly transfer of matters and documents, and preserving the stability of the debtor's activity.

3. Pursuant to this provision, as of the day of the court's approval of the settlement agreement, the debtor, the external manager, the liquidation manager or a third party that has assumed the obligations is obliged to commence the repayment of the indebtedness toward the creditors in the manner and on the terms established by the settlement agreement. For example, if, in accordance with the settlement agreement, the debtor assumed an obligation to repay the indebtedness in installments, then, after the court's approval of the agreement, these payments begin to be made. If a third party assumed the repayment of the indebtedness, it likewise commences the performance of the obligations as of that day. This provision is aimed at ensuring the practical performance of the settlement agreement and the commencement of the process of satisfying the creditors' claims.

Article 167. Refusal by the Court to Approve a Settlement Agreement

In the event of the failure to perform the obligation to repay the expenses and satisfy the claims specified in part one of Article 165 of this Law, the court refuses to approve the settlement agreement.

The court also refuses to approve a settlement agreement in the following cases:

a violation of the procedure for concluding a settlement agreement established by this Law;

non-compliance with the form of the settlement agreement;

a violation of the rights of third parties;

the contradiction of the terms of the settlement agreement with the legislation.

The court issues a ruling on the refusal to approve a settlement agreement, which may be appealed (protested).

The commented article establishes the grounds and circumstances for the court's refusal to approve a settlement agreement, the procedure for the court to issue a ruling on the refusal to approve a settlement agreement, as well as the legal consequences of such a refusal.

1. Pursuant to this provision, if, prior to the conclusion of the settlement agreement, the court expenses, the remuneration of the judicial manager, and other mandatory payments provided for by the Law were not covered, or the established claims were not satisfied, the court refuses to approve the settlement agreement. For example, if the debtor reached an agreement with the creditors but did not pay the expenses of the proceedings or did not satisfy the claims that must be satisfied first, the court does not approve the agreement. This provision is aimed at ensuring the conclusion of a settlement agreement in accordance with the requirements of the legislation, as well as at protecting the rights in respect of mandatory payments and of preferred creditors.

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50. To draw the courts' attention to the fact that the existence of a wage arrears is a ground for refusing to approve a settlement agreement.

2. The Law establishes a list of other circumstances in which the court refuses to approve a settlement agreement. Such cases include: a violation of the procedure for concluding a settlement agreement (for example, the failure to involve all creditors in the voting on obligations secured by a pledge of the debtor's property), non-compliance with the form of the settlement agreement (the absence of written form), a violation of the rights of third parties (where the terms of the settlement agreement affect the rights and obligations of parties not participating in it), as well as the contradiction of the terms of the settlement agreement with the requirements of the legislation (for example, the requirements of the legislation on currency regulation).

3. Pursuant to this provision, if the court finds a settlement agreement not to comply with the requirements of the legislation, it issues a ruling refusing to approve it. Such a ruling may be appealed by the interested parties, including the debtor or the creditors, to a higher court, or a protest against it may be brought by the prosecutor. For example, if the court considers that the settlement agreement violates the rights of the creditors or that the mandatory requirements were not fulfilled, it

does not approve the agreement and issues a corresponding ruling. This provision is aimed at ensuring control over the lawfulness of judicial decisions and affording the parties the possibility of protecting their rights.

Article 168. Consequences of a Refusal to Approve a Settlement Agreement

In the event that the court issues a ruling refusing to approve a settlement agreement, it is deemed not concluded.

The court's issuance of a ruling refusing to approve a settlement agreement does not impede the conclusion of a new settlement agreement.

The commented article establishes that, in the event of the court's refusal to approve a settlement agreement, it is deemed not concluded; however, this circumstance does not restrict the parties' right to conclude a new settlement agreement subsequently.

1. The principal consequence of the court's refusal to approve a settlement agreement is the finding that it has not been concluded. All the substantive and procedural consequences that the parties expected upon the conclusion of the settlement agreement do not ensue. The debtor and the creditors remain in the position in which they were at the moment of concluding the settlement agreement, without any changes. The procedural feature of the court's refusal to approve a settlement agreement is that the insolvency proceedings continue.

2. Pursuant to this provision, the court's refusal to approve a settlement agreement does not deprive the parties of the right to conclude a new settlement agreement subsequently. In this regard, the debtor and the creditors may remedy the defects identified in the settlement agreement that the court refused to approve and conclude a new settlement agreement that complies with the requirements of the legislation. For example, if the court did not approve the initial settlement agreement in connection with a violation of the rights of individual creditors or the non-fulfillment of mandatory requirements, the parties have the right to remedy these circumstances and conclude a settlement agreement anew.

Article 169. Invalidity of a Settlement Agreement

Upon the application of the debtor, a creditor, or persons whose rights and legitimate interests are violated, a settlement agreement may be found invalid by the court:

if the settlement agreement contains conditions providing for advantages for individual creditors or the infringement of the rights and legitimate interests of individual creditors;

where there are other grounds for the invalidity of transactions provided for by the legislation.

The commented article establishes that a settlement agreement may be found invalid by the court where it granted individual creditors unjustified advantages, violated the rights and interests of other persons, or where there are other grounds provided for by the legislation.

This article defines the range of persons that may apply to the court with an application to have a settlement agreement found invalid. Such persons include the debtor, a creditor, and persons whose rights and legitimate interests are violated.

When preparing a case on a claim to have a settlement agreement found invalid for judicial consideration, the court must consider the matter of involving in the case all the parties to the agreement and other interested parties.

A settlement agreement, as a civil-law transaction, is subject to the general rules on finding transactions invalid provided for by the CC. The special grounds for finding a settlement agreement invalid include cases where the settlement agreement provides for conditions that grant individual creditors advantages or that infringe the rights and legitimate interests of individual creditors. In other words, if the content of the settlement agreement provides for the granting to individual creditors of unjustified advantages in violation of the principle of the equality of creditors, and the rights and legitimate interests of other creditors are thereby infringed, then the settlement agreement may be found invalid on the basis of the claimant's statement of claim.

In this regard, the court examines with particular care cases of an unjustified distinction between creditors of the same rank or cases where the preferential satisfaction of individual claims is provided for.

The list of cases of the invalidity of a settlement agreement given in this article is not exhaustive; other grounds provided for by the legislation may also exist. For example, a settlement agreement concluded without the intention of creating legal consequences, merely for the sake of form (a sham transaction) or for the purpose of concealing another transaction (a pretended transaction), is found invalid on the basis of Article 124 of the CC.

Disputes over finding this settlement agreement invalid are considered by the court not within the framework of the insolvency case but as an independent economic dispute, and, based on the results of the consideration of the case, where the claims are granted, a judgment of the court is adopted. That is, if the application of the debtor, a creditor or another person whose rights and legitimate interests are violated is found to be well-founded, the court adopts a decision finding the settlement agreement invalid in whole or in part.

See also: International Commentary, p. 783.

Article 170. Consequences of Finding a Settlement Agreement Invalid

Finding a settlement agreement invalid is a ground for the resumption of the insolvency proceedings. The court issues a ruling on the resumption of the insolvency proceedings, which may be appealed (protested).

In the event that a settlement agreement is found invalid, the claims of creditors in respect of which a deferral and (or) an installment schedule for the payments owed to them or a discount off the debts was made are restored in the unsatisfied part thereof.

Finding a settlement agreement invalid does not entail an obligation to return to the debtor the repaid expenses and the satisfaction of the claims provided for by part one of Article 165 of this Law.

In the part not regulated by this article, the consequences of the invalidity of transactions provided for by the legislation ensue.

In the event that a settlement agreement is found invalid, a notice of the resumption of the insolvency proceedings of the debtor is published in the mass media by the court at the expense of the debtor's property under the procedure provided for by Articles 53 and 54 of this Law.

The claims of creditors with which settlements were made on the terms of a settlement agreement that do not contradict this Law are deemed discharged. Creditors whose claims were satisfied in accordance with the terms of a settlement agreement providing for their advantages or the infringement of the rights and legitimate interests of other creditors are obliged to return everything received by way of the performance of the settlement agreement. In this regard, the said claims are restored in the register of creditors' claims.

The commented article establishes the consequences of finding a settlement agreement invalid, the restoration of the insolvency proceedings, the court's publication of the corresponding notice in the mass media, as well as the creditors' obligation to return everything received by them by way of the performance of the settlement agreement.

1. Pursuant to this provision, if the court finds a settlement agreement invalid, the insolvency proceedings are resumed, since there are no legal grounds for terminating the case on the basis of the settlement agreement. For example, if it is established that the settlement agreement granted individual creditors unlawful advantages and the court finds it invalid, the insolvency proceedings are restored. In such a case, the court issues a ruling on the resumption of the proceedings, and the interested parties have the right to appeal this ruling, or the prosecutor has the right to bring a protest. This provision is aimed at protecting the rights of the creditors, eliminating the legal consequences of unlawful agreements and continuing the insolvency procedure in accordance with the requirements of the legislation.

2. If a settlement agreement is found invalid, the claims of creditors in respect of which a deferral and (or) an installment schedule for the payments owed to them was granted or the writing-off of indebtedness was made are restored in the part that

remained unsatisfied. Thus, having regard to the payments previously received by the creditors or the installment schedule granted to them, their right of claim in respect of the unrepaid part of the indebtedness is restored. For example, if a creditor was to be paid 100 million soums, and on the basis of the agreement it received 60 million soums, then, after the agreement is found invalid, its claim in the amount of the remaining 40 million soums is restored.

3. In the event that a settlement agreement is found invalid, this does not entail for the debtor an obligation to reimburse the covered expenses and to satisfy the claims provided for by part one of Article 165 of the Law. That is, finding the agreement invalid does not in itself automatically impose on the debtor an obligation to return the reimbursed expenses or to satisfy other claims provided for by the legislation. Since the court does not automatically oblige the debtor to reimburse the previously incurred expenses, this matter may be contested as a separate dispute on the basis of a corresponding application and where legal grounds exist.

4. The general rules on the consequences of the invalidity of a transaction are established by Article 114 of the CC. Pursuant to this provision, an invalid transaction does not entail legal consequences other than those relating to its invalidity, and is invalid from the moment of its performance.

Upon the invalidity of a transaction, each of the parties is obliged to return to the other party everything received under the transaction and, where it is impossible to return what was received in kind (including where what was received is expressed in the use of property, work performed or a service rendered), to reimburse its value in monetary form, unless other consequences of the invalidity of the transaction are provided for by law.

If a transaction performed with the allowance of a conflict of interests is found invalid, the benefit received as a result of concluding such a transaction is subject to recovery to the revenue of the state through judicial proceedings without presenting a claim for the return of everything received under the transaction. The expenses relating to the performance of such a transaction are reimbursed at the expense of the person who allowed the conflict of interests.

If a transaction performed with the allowance of corruption is found invalid, the damage caused to physical and legal entities as a result of concluding such a transaction is reimbursed by the culpable persons through judicial proceedings.

In addition, when the courts consider cases of this category, it is recommended to take into account the clarifications contained in the Resolution of the Plenum of the Higher Economic Court of the Republic of Uzbekistan of 28 November 2014 No. 269 “On certain matters of the application by economic courts of the provisions of the civil legislation on the invalidity of transactions.”

Resolution of the Plenum of the Higher Economic Court of the Republic of Uzbekistan No. 269 of 28 November 2014 "On Certain Matters of the Application by Economic Courts of the Provisions of the Civil Legislation on the Invalidity of Transactions"

20. In view of the fact that an invalid transaction does not entail legal consequences, with the exception of those relating to its invalidity, and is invalid from the moment of its performance, the courts should bear in mind that, when applying the consequences of the invalidity of a transaction, the parties must be brought into the position in which they were prior to the performance of the transaction.

21. A claim for the application of the consequences of the invalidity of a transaction may be asserted simultaneously with a claim to have a voidable transaction found invalid or with a claim to have a void transaction found invalid, or in the form of a separate action.

In this regard, the application of the consequences of the invalidity of a voidable transaction is possible only where there is a decision of the court finding this transaction invalid.

22. The application of the consequences of the invalidity of a void transaction is possible both after the granting of the claim asserted by the claimant to have the void transaction found invalid and in the absence of such a decision. In the latter case, the court must substantiate the application of the consequences of invalidity in the reasoning part of the decision by findings as to the existence of the fact of the voidness of the transaction.

23. To draw the courts' attention to the fact that the application, on its own initiative, of the consequences of the invalidity of a void transaction is a right and not an obligation of the court. In this regard, it is necessary to take into account that, in respect of voidable transactions, the courts are not vested with such a right.

5. Pursuant to this provision, if a settlement agreement is found invalid by the court and the insolvency proceedings are resumed, a notice thereof must be published by the court in the mass media. In this regard, the expenses relating to the publication are covered at the expense of the debtor's property, and the procedure itself is carried out under the procedure established by Articles 53 and 54 of the Law. For example, in order for the creditors and other interested parties to be notified of the resumption of the proceedings, the court places an official notice. This provision is aimed at ensuring the openness of the insolvency procedure and the timely notification of all interested parties.

6. Creditors with which settlements were made in accordance with the terms of the settlement agreement are deemed to have satisfied their claims, provided that such claims do not contradict this Law. However, if the creditors' claims were satisfied in accordance with the terms of a settlement agreement providing for the granting to them of advantages or the infringement of the rights and legitimate interests of other creditors, such creditors are obliged to return everything received

by them under the settlement agreement. Such a circumstance is initially a ground for finding the settlement agreement invalid in accordance with Article 169 of this Law. In this regard, the corresponding claims are restored in the register of creditors' claims.

Article 171. Consequences of the Non-Performance of a Settlement Agreement

In the event of the non-performance of a settlement agreement by the debtor, the creditors have the right to present claims in the amount provided for by the settlement agreement.

In the event of the initiation of a new insolvency case, the amount of the claims of the creditors in respect of which the settlement agreement was concluded is determined by the conditions provided for by the settlement agreement.

The commented article establishes the consequences of the debtor's non-performance of a settlement agreement, as well as the procedure for determining the amount of the creditors' claims in the event of the initiation of a new insolvency case.

1. Pursuant to this provision, if the debtor does not perform the obligations assumed by it under the settlement agreement, the creditors have the right to present their claims anew in the amount and on the terms established by the settlement agreement. For example, if the debtor assumed an obligation to repay the indebtedness in installments but does not make the payments within the established time periods, the creditors have the right to demand the recovery of the indebtedness in the amount specified in the agreement. This provision is aimed at ensuring the binding nature of the settlement agreement, encouraging the debtor to perform its obligations in good faith and protecting the interests of the creditors.

2. Pursuant to this provision, if an insolvency case is subsequently initiated anew in respect of the debtor, the claims of the creditors that were participants in the previously concluded settlement agreement are determined on the basis of the conditions established by that agreement. For example, if, under the settlement agreement, a creditor agreed to the forgiveness of part of the indebtedness or to its repayment in installments, then, upon the initiation of a new case, its claim is determined precisely on the basis of these conditions. This provision is aimed at preserving the stability of the terms of the settlement agreement and ensuring compliance with the arrangement reached between the creditors and the debtor.

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50. In the event of the resumption of insolvency proceedings concerning a natural person in connection with a violation of the terms of a settlement agreement, the procedure for declaring the natural person bankrupt and selling their property is introduced (part six of Article 225 of the Law).

In the event of the initiation of a new insolvency case in respect of the debtor, the amount of the claims of the creditors in respect of which the settlement agreement was concluded is determined by the conditions provided for by the settlement agreement (part two of Article 171 of the Law).

CHAPTER 13. SPECIAL CONSIDERATIONS WITH RESPECT TO INSOLVENCY OF CERTAIN CATEGORIES OF DEBTORS WHICH ARE LEGAL ENTITIES

Article 172. Specifics of the Insolvency of a City-Forming Enterprise and an Enterprise Equated Thereto

A case concerning the insolvency of a city-forming enterprise and an enterprise equated thereto may be instituted by the court where the signs of insolvency provided for in Article 5 of this Law are present.

In the consideration of a case concerning the insolvency of a city-forming enterprise and an enterprise equated thereto, the relevant local executive authority and/or the relevant ministry, agency or economic management body shall be recognized as a person participating in the case.

The procedure for classifying enterprises as city-forming enterprises and enterprises equated thereto shall be determined by the Cabinet of Ministers of the Republic of Uzbekistan.

The article being commented upon provides that a case concerning the insolvency of a city-forming enterprise or an enterprise equated thereto is instituted by the court. In this connection, a local state authority and/or the relevant ministry, agency, or economic management body is drawn into the proceedings as a participant in the case. The list of such enterprises is determined in the procedure established by the Cabinet of Ministers.

1. A city-forming enterprise or an enterprise equated thereto means a legal entity the number of whose employees, together with their family members, constitutes not less than one half of the population of the corresponding locality, or the number of whose employees constitutes not less than three thousand persons, or which ensures the maintenance of the defense capability and security of the state, and also has strategic significance or is a subject of a natural monopoly.

The signs of insolvency of a city-forming enterprise and an enterprise equated thereto are: a) temporary insolvency—the inability of the debtor, as of the date of application to the court, to satisfy creditors' claims under monetary obligations and/or to discharge its obligations to pay taxes and duties, where the corresponding obligations have not been discharged by the debtor within six months from the day of their arising; b) permanent insolvency—where, as of the date of filing the application with the court and as of the beginning of the reporting period of the year in which the application is filed, and where the application is filed in the first quarter of the year, as of the beginning of the reporting period of the previous year, the debtor's obligations exceed the value of its assets.

Where the indicated signs are present, the court may institute a case concerning the insolvency of a city-forming enterprise or an enterprise equated thereto.

2. Part two of this article establishes that the relevant local state authority, namely the Council of Ministers of the Republic of Karakalpakstan, the khokimiyats of provinces, cities and districts, and also a ministry (for example, the Ministry of Transport), an agency (for example, the Telecommunications Regulation Agency) or an economic management body (for example, the joint-stock company "Uzavtosanoat"), are recognized as persons participating in the case in the consideration of a case concerning the insolvency of a city-forming enterprise or an enterprise equated thereto. This is conditioned by the fact that the indicated bodies, taking into account the socio-economic significance of the enterprise, submit the necessary information and opinions to the court, and also protect the interests of the state and society in the decision-making process.

In particular, the participation of a local state authority in these proceedings is aimed at ensuring social stability, preserving jobs and preventing damage to urban infrastructure, whereas the participation of ministries and agencies is conditioned by the fact that the enterprise is often directly connected with a particular sector (energy, transport or communal services).

3. By Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 107 of 30 April 2015, the Regulation "On the Procedure for Classifying Enterprises as City-Forming Enterprises and Enterprises Equated Thereto" was approved. Under paragraph 3 of this Regulation, city-forming enterprises and enterprises equated thereto include legal entities meeting at least one of the following criteria: a) the number of the enterprise's employees together with their family members constitutes not less than one half of the population of the corresponding locality; b) the number of the enterprise's employees constitutes not less than three thousand persons; c) the enterprise ensures the maintenance of the defense capability and security of the state; d) the enterprise is a subject of a natural monopoly; e) the enterprise has strategic significance.

In particular, a *subject of a natural monopoly* is an economic entity that, as its principal type of activity, carries out the production and/or sale of goods (works, services) under conditions of natural monopoly.

See also: International Commentary, p.785.

Article 173. External Management of a City-Forming Enterprise and an Enterprise Equated Thereto

External management of a city-forming enterprise and an enterprise equated thereto may be introduced by the court on the basis of a decision of the meeting of creditors, and in the absence of such a decision—also upon the petition of a local executive authority or a ministry, agency or economic management body, provided that they furnish security for the debtor's obligations.

The external management plan for a city-forming enterprise and an enterprise equated thereto shall, prior to its submission to the meeting of

creditors, be agreed with the local executive authority, and, for enterprises carrying out a state defense order—with the ministry, agency or economic management body.

Upon the petition, respectively, of a local executive authority or a ministry, agency or economic management body, where they have furnished security for the discharge of the debtor's obligations, including by the provision of state guarantees, the court may adopt a decision to transition to the procedure of judicial rehabilitation of the debtor, where such a procedure has not previously been applied to the debtor.

The article being commented upon provides that the introduction of external management with respect to a city-forming enterprise or an enterprise equated thereto is carried out on the basis of a decision of the meeting of creditors or a petition of a local authority and the relevant ministries and agencies; the external management plan is subject to prior agreement with the indicated bodies, and, in cases where they secure the debtor's obligations, the court may decide to transition the enterprise to the procedure of judicial rehabilitation.

1. Part one of this article establishes special mechanisms for the introduction of external management with respect to city-forming enterprises and enterprises equated thereto, taking into account their strategic significance.

First, the introduction of external management, as a general rule, depends on a decision of the meeting of creditors. This is a traditional rule aimed at ensuring the priority of creditors' interests in the insolvency process.

Second, where the creditors have not adopted such a decision, as a special exception, this provides for the possibility of introducing external management *also on the basis of a petition of a local state authority or the relevant ministries, agencies and economic management bodies.* This is conditioned by the fact that such enterprises are of great importance for the economy of the city, its infrastructure and the employment of the population.

Third, such a benefit is granted only under one condition: the indicated bodies must furnish security for the debtor's obligations (a guarantee, suretyship, subsidy or other financial support). That is, external management on the initiative of state bodies and economic management bodies may be introduced only where they have assumed financial responsibility for preserving the enterprise.

In sum, this provision establishes a balance among the interests of creditors, the strategic significance of the enterprise's activity and the financial responsibility of the state, and also provides for a special procedure connected with ensuring economic security.

2. Part two of this article introduces a provision which, in the approval of the external management plan for city-forming enterprises and enterprises equated thereto, differs substantially from the ordinary procedure of insolvency proceedings.

First, the external management plan is subject to mandatory agreement with the local state authority prior to its submission for consideration by the meeting of

creditors. This requirement is conditioned by the fact that the cessation or alteration of the activity of such an enterprise may have a serious impact on urban infrastructure, the employment of the population and economic stability. The state authority assesses in what manner the plan provides for the elimination of socio-economic risks.

Second, where the enterprise is a strategic entity carrying out a state defense order, the external management plan must be agreed not only with the local state authority but also with the relevant ministry, agency or economic management body. Since the fulfillment of a defense order is connected with ensuring state security and defense capability, each item of the external management plan is subject to analysis by the higher-level bodies.

Third, this provision strengthens the participation of the state in the development of the external management plan for enterprises operating in strategic sectors, and ensures a balance between the interests of creditors and state interests in the sphere of security and social stability.

Thus, this provision requires that the external management plan for an enterprise be formed not only on the basis of the interests of the debtor and creditors, but also taking into account the interests of the city, the region and state security.

3. This provision establishes a special legal mechanism, based on a state guarantee, aimed at preserving city-forming enterprises and enterprises equated thereto.

First, where a local state authority or the relevant ministry, agency or economic management body has secured the discharge of the obligations of the debtor enterprise, that is, has assumed an obligation to repay its debts in one form or another (a guarantee, financial assistance, subsidy, suretyship, etc.), it acquires the right to apply to the court with a corresponding petition.

Second, where such security is present, the court may adopt a decision to introduce the procedure of judicial rehabilitation with respect to the enterprise, where this procedure has not previously been applied to it. This constitutes a mechanism for bringing the enterprise out of a state of insolvency with the direct participation of the state.

Third, this provision provides, as a ground for applying the procedure of judicial rehabilitation, not only the presence of a financial crisis but also the actual responsibility of state bodies and economic management bodies for supporting the enterprise. Thereby, state resources are used in a targeted and effective manner to preserve enterprises of strategic significance.

Thus, this provision creates the possibility of transferring a strategic enterprise in a state of insolvency to the procedure of judicial rehabilitation where additional state guarantees are present, which contributes to preserving the enterprise, protecting jobs and ensuring socio-economic stability.

See also: International Commentary, p.785.

Article 174. Extension of the Periods for Conducting the External Management Procedure of a City-Forming Enterprise and an Enterprise Equated Thereto

External management of a city-forming enterprise and an enterprise equated thereto may be extended by the court for a period of not more than one year where a petition of a local executive authority is present.

A ground for extending the external management procedure for the period provided for in part one of this article may be a financial recovery plan for the city-forming enterprise and the enterprise equated thereto through investment in its activity, the placement of employees in employment, the creation of new jobs and other means of restoring the debtor's solvency.

Upon the petition, respectively, of a local executive authority or a ministry, agency or economic management body, provided that a suretyship is furnished for the debtor's monetary obligations and/or taxes and duties, the period of the external management procedure of a city-forming enterprise and an enterprise equated thereto may be extended up to five years. The debtor and its surety in this case are obliged to commence settlements with creditors no later than the periods provided for in this article.

Failure to comply with the requirements provided for in part three of this article is a ground for adjudging the debtor bankrupt and commencing liquidation proceedings.

The article being commented upon provides that the period of external management with respect to a city-forming enterprise or an enterprise equated thereto may be extended upon the petition of a local state authority, where an investment project and a financial recovery plan are present, for one year, and, where state bodies and economic management bodies furnish a surety—up to five years. Otherwise, the enterprise may be recognized bankrupt with the opening of liquidation proceedings.

1. The external management procedure, as a rule, is introduced for a period of from twelve to twenty-four months.

This provision establishes a special rule on extending the period of the external management procedure, taking into account the strategic significance of city-forming enterprises and enterprises equated thereto.

First, external management is ordinarily carried out within the established period; however, in view of the important significance of such enterprises for the economy of the city, its infrastructure and the employment of the population, the court may extend this period up to one year.

Second, the extension is not automatic—it may be carried out only where a petition of the relevant local state authority is present. This requirement attests to the genuine interest and responsibility of the local state authority in restoring the enterprise's activity.

Third, this provision strengthens the role of local state authorities in preserving the enterprise's activity, since their petition is filed taking into account an assessment

of the enterprise's financial condition, its social significance and the prospects for its recovery.

Thus, this provision creates a legal basis for extending the period of external management up to one year with the participation of a local state authority, for the purpose of restoring strategically important enterprises and preventing their premature liquidation.

2. This provision establishes the practical, economic and social grounds for extending the period of external management with respect to city-forming enterprises and enterprises equated thereto.

First, the period of external management may be extended not merely on the basis of a formal petition, but only where a concrete and well-founded plan aimed at the financial recovery of the enterprise is present. This requirement is intended to confirm the reality of the possibility of the enterprise's recovery.

Second, the provision itself gives examples of what such a recovery plan may be: a) attracting investment, that is, attracting additional financial resources for restoring the enterprise's infrastructure, its technologies or production capacities; b) placing employees in employment, which attests to the importance of personnel policy for stabilizing the enterprise's activity; c) creating new jobs, which shows the social effectiveness of restoring the enterprise's activity; d) other means of restoring solvency, for example, restructuring, optimization of production, the conclusion of agreements with creditors and other measures.

Third, this provision indicates that where such a well-founded and feasible plan is present, the court may extend the period of external management for the period provided for in part one of this article. Consequently, the principal criterion for the extension is the presence of a real and economically well-founded possibility of the enterprise's recovery.

Thus, this provision serves as a practical mechanism for preserving the enterprise, linking the extension of external management with the attraction of investment, the implementation of personnel policy and measures to restore solvency.

3. This provision provides for the possibility of the maximum extension of the period of external management on the basis of a guarantee with respect to strategically important city-forming enterprises and enterprises equated thereto.

First, the period of external management may be extended up to five years; however, this is permitted only where the relevant local state authority, ministry, agency or economic management body has furnished a guarantee for the debtor's monetary obligations, and also for its obligations to pay taxes and duties. This requirement is aimed at ensuring long-term financial support for the enterprise and preventing its insolvency.

Second, it is established that, in effecting settlements with creditors, the debtor and the guarantor that furnished the guarantee are obliged to discharge their duties without delay within the periods provided for in this article. This is of important

significance for restoring the enterprise's financial stability and protecting the interests of creditors.

Thus, this provision creates a legal mechanism permitting, on the basis of a state guarantee and financial support, the extension of the period of external management with respect to strategic enterprises and thereby ensuring their recovery from a state of insolvency.

4. This provision establishes the consequences of failure to comply with the requirements for discharging obligations provided for within the framework of the external management procedure with respect to enterprises of strategic significance.

First, where the enterprise and its guarantor do not comply with the conditions indicated in part three of this article, for example, do not effect settlements with creditors within the established periods or do not discharge obligations secured by a state guarantee, this is a ground for adjudging the debtor bankrupt.

Second, this provision grants the court the right to adopt a decision to recognize the enterprise bankrupt and to open liquidation proceedings; that is, the enterprise's activity may be terminated where, even after the application of external management, it has not proved possible to restore its financial stability.

Thus, this provision creates a legal basis for adjudging the enterprise bankrupt and liquidating it in the event of the absence of guarantees of performance or the non-discharge of the obligations established during the period of external management, thereby ensuring the protection of the interests of creditors and the state.

See also: International Commentary, p.785.

Article 175. Conditions for the Sale of a City-Forming Enterprise and an Enterprise Equated Thereto

For the purpose of satisfying creditors' claims, in the course of the external management procedure, the sale of a city-forming enterprise and an enterprise equated thereto as a property complex may be carried out. The sale of a city-forming enterprise and an enterprise equated thereto is effected by conducting a tender or auction in the form of an electronic online auction.

The mandatory conditions for the sale of a city-forming enterprise and an enterprise equated thereto by tender are:

preservation of jobs for not less than seventy percent of the employees engaged at the city-forming enterprise, and the enterprise equated thereto at the moment of its sale;

the obligation of the purchaser, in the event of a change in the profile of the activity of the city-forming enterprise and the enterprise equated thereto, to retrain the employees or place them in employment.

The mandatory conditions for the sale by tender of an enterprise ensuring the maintenance of the defense capability and security of the state, and also having strategic significance, are:

ensuring the preservation of the intended purpose of the property complex of the enterprise ensuring the maintenance of the defense capability and security of the state, and also of the property of the enterprise of strategic significance and property of mobilization purpose, as well as the specified purpose of property of strategic significance;

performance of the debtor's contracts connected with carrying out works under a state defense order and ensuring state needs in the field of the defense capability and security of the state.

The mandatory conditions for the sale by tender of an enterprise that is a subject of natural monopolies are:

the purchaser's consent to assume the debtor's obligations under contracts for the supply of goods that are the subject of regulation by the legislation on natural monopolies, and to ensure the availability of the goods (works, services) produced and/or sold to consumers;

the purchaser's possession of a license to carry out the corresponding type of activity, where the debtor's activity is subject to licensing.

Conditions of a tender not provided for in parts two, three and four of this article may be established exclusively with the consent of the meeting of creditors in the procedure provided for in Article 17 of this Law.

Where a city-forming enterprise and an enterprise equated thereto has not been sold on the conditions of a tender, it is subject to sale at an auction in the form of an electronic online auction.

Where the property of an enterprise carrying out a state defense order includes property of restricted transferability, the sale of such an enterprise is carried out in the form of a tender only at a closed auction, the participants in which may be exclusively persons who, in accordance with law, may hold the indicated property by right of ownership or another proprietary right.

The property of a sold enterprise carrying out a state defense order that is withdrawn from circulation is transferred to the owner of the property no later than three months from the moment of notification by the external manager of the existence of such property.

Local executive authorities or ministries, agencies and economic management bodies, within one month after the signing of the protocol on the results of an auction in the form of an electronic online auction, have a preferential right to acquire an enterprise carrying out a state defense order, enterprises of strategic significance and/or subjects of a natural monopoly at the price established as a result of conducting the auction in the form of an electronic online auction.

The article being commented upon determines the procedure for the sale of a city-forming enterprise and an enterprise equated thereto, the forms in which it is carried out, and also the mandatory conditions to be applied in such a sale. Particular attention is paid to the requirements for preserving jobs, ensuring the intended functioning of facilities of strategic and defense significance, imposing on the purchaser obligations connected with the activity of subjects of a natural monopoly, and also guaranteeing, in individual cases, the preferential right of state bodies to acquire such an enterprise.

1. Under part one of this article, during the exercise of external management, as one of the effective means of satisfying creditors' claims, the possibility is provided of selling a city-forming enterprise or an enterprise equated thereto as a property complex in the procedure established by Articles 489-496 of the CC. In this connection, the sale of the enterprise must be carried out in an open and competitive procedure—by conducting a tender or auction in the form of electronic online trading. This, on the one hand, contributes to the sale of the enterprise's assets at the maximum possible price and, on the other, ensures the maximum possible protection of the interests of creditors.

2. This provision shows that, in the sale of city-forming enterprises and enterprises equated thereto by tender, social guarantees have priority significance. The first requirement is the preservation of jobs for not less than 70 percent of the employees on the enterprise's staff at the moment of its sale. This is aimed at ensuring the employment of the local population and preventing social upheaval even in the event of substantial changes in the enterprise's activity. The second requirement consists in the fact that, where the purchaser changes the profile of the enterprise's activity, it is obliged to assume the obligation to retrain the existing employees or place them in employment at other jobs. Thus, this provision is aimed at ensuring the continuity of labor relations, protecting the interests of employees, and also creating conditions for the stable functioning of the enterprise after its transition to a new owner and the commencement of activity in a new field.

3. This provision establishes that, in the sale of enterprises having strategic and defense significance, priority is given to ensuring state security. Under the first requirement, the property complex of such an enterprise, a strategic facility, or property of mobilization purpose must be preserved and used exclusively in accordance with its intended purpose. In other words, the purchaser does not have the right to change their purpose or use them for other purposes, since this may affect the interests of state security. The second requirement provides that the purchaser is obliged to perform in full and without interruption the state defense orders previously accepted by the debtor enterprise and the contracts connected with ensuring the needs of state defense. This guarantees the uninterrupted implementation of important defense projects and the continuous ensuring of state interests in the sphere of national security.

4. This provision establishes that, in the sale of enterprises that are subjects of a natural monopoly, the principal requirements are ensuring the stability of the market and protecting the rights of consumers. Under the first condition, the purchaser assumes in full the obligations of the debtor enterprise for the supply of goods and the provision of services in the sphere of natural monopoly, and must ensure that the population and businesses have uninterrupted and free access to these goods and services. This is necessary in order to preclude the cessation of the provision of monopoly services, unjustified changes in prices and to preserve the interests of consumers. The second condition provides that, where the carrying out of the

corresponding activity is subject to licensing, the purchaser is obliged to hold the corresponding license. This requirement ensures that further activity in the sphere of natural monopoly is carried out within the framework of the legislation and in accordance with the established professional and qualification requirements.

5. Part five of this article clearly determines the procedure and restrictions in establishing additional conditions for the sale of an enterprise by tender. Under this provision, in addition to the mandatory requirements provided for in parts two, three and four of this article, any additional conditions may be established only where the meeting of creditors adopts a corresponding decision by a majority of the votes of the creditors possessing the right to vote and present at the meeting. This ensures the observance of a balance of interests in the sale of the enterprise, prevents the infringement of creditors' rights and does not permit the unilateral or unjustified tightening of the conditions of sale.

6. This provision establishes a sequential and phased procedure for the sale of a city-forming enterprise or an enterprise equated thereto. Where the sale of the enterprise by tender, that is, on the conditions of the mandatory requirements, proves impossible, such a sale must be carried out through an auction in the form of an electronic online auction. This mechanism ensures the continuity of the process of realizing the property, the openness and transparency of the sale of the assets to the person offering the best conditions, and also the maximum possible satisfaction of creditors' claims.

7. This provision establishes a stricter special procedure for the sale of enterprises carrying out a state defense order whose composition includes property of restricted transferability. Since such assets are connected with ensuring national security, the sale of the enterprise at an open auction is not permitted. Realization may be carried out exclusively by way of a closed tender in the form of a closed auction. In this connection, the circle of persons who may participate in such an auction is also restricted. The participants may be only those entities that, in accordance with legislation, have the right to hold the given property by right of ownership or another proprietary right. This requirement is aimed at preventing the transfer of property withdrawn from circulation or with restricted transferability to random persons and ensures the uninterrupted performance of functions connected with state security.

8. This provision determines the procedure for handling property withdrawn from circulation (prohibited for free use and participation in civil turnover) where such property forms part of an enterprise carrying out state defense orders. Under the rule, the external manager is obliged to transfer such property to its proper owner no later than three months from the moment of notifying the owner of the existence of the indicated assets. This requirement is established for the purpose of precluding the uncontrolled location of defense facilities or property under a special legal regime, ensuring certainty as to their legal status, and also guaranteeing their proper preservation and security.

9. Part nine of this article regulates the application of the mechanism of the preferential right in ensuring the priority of state and strategic interests. It is indicated that, after the signing by local state management bodies, ministries, agencies, or economic management bodies of the protocol on the results of the electronic online auction, within one month they have a preferential right to acquire, at the price established at the auction, an enterprise carrying out a state defense order, strategically important enterprises and (or) subjects of natural monopolies. This ensures priority in acquiring property for state and strategically important facilities, guarantees their timely provision and the satisfaction of state needs on the established conditions, and also restricts the influence of open competition on the market, preserving the priority of state and strategic interests.

See also: International Commentary, p.785.

Article 176. Sale of the Property of a City-Forming Enterprise and an Enterprise Equated Thereto Recognized Bankrupt

In the sale of the property of a city-forming enterprise and an enterprise equated thereto, the liquidation manager must offer the enterprise for sale at the first auction in the form of an electronic online auction as a property complex.

Where the property of a city-forming enterprise and an enterprise equated thereto has not been sold as a property complex, the sale of the debtor's property is carried out in accordance with Article 127 of this Law.

The property of a debtor enterprise that is a subject of a natural monopoly, used by it in the process of production and/or sale of goods (works, services), is put up at auction in the form of an electronic online auction only as a property complex.

The liquidation manager is obliged to ensure the performance of the contracts for the supply of goods (works, services) of a debtor enterprise that is a subject of a natural monopoly during the exercise of liquidation proceedings in cases where the cessation of performance of such contracts violates the living conditions of the population or the activity of enterprises with a continuous production cycle.

The liquidation proceedings of a debtor enterprise that is a subject of a natural monopoly must be completed within a period no later than six months from the date of the adoption of the court's decision and the appointment of the liquidation manager. Where, upon the expiry of the indicated period, the enterprise's property remains unsold, the liquidation manager, by decision of the meeting of creditors, and, upon its refusal, by decision of the local executive authority, completes the liquidation proceedings by way of the substitution of assets in accordance with the procedure provided for in Article 131 of this Law.

The article being commented upon determines the procedure for the sale of the property of city-forming and equated insolvent enterprises, and also the responsibility of the liquidation manager. In this connection, priority is provided for

the sale of the enterprise as a property complex by means of an electronic online auction, the necessity of ensuring the uninterrupted performance of supply contracts with respect to subjects of a natural monopoly, and also the possibility of conducting the liquidation procedure by way of the substitution of assets on the basis of decisions of creditors or the relevant local state authority where the property has not been realized.

1. It follows from this provision that, in the sale of the property of a city-forming enterprise or an enterprise equated thereto, the first-priority and principal duty of the liquidation manager is to put the enterprise up for the initial auction in the form of an electronic online auction as a single property complex. The purpose of such a procedure consists in realizing the enterprise's assets as a single whole under conditions of an open and competitive sale, which makes it possible to ensure their valuation at the maximum possible price and the maximum possible satisfaction of creditors' claims. In addition, the sale of the enterprise as a property complex contributes to preserving its economic value, and also ensures the possibility of the continuation and uninterrupted nature of its activity.

2. Under this provision, where the property of a city-forming enterprise or an enterprise equated thereto has not been realized at an electronic online auction as a single property complex, an alternative procedure for the sale of the debtor's property is applied. Such a procedure must be carried out in accordance with the rules established by Article 127 of the Law, by way of realizing part of the debtor's property after conducting its inventory and valuation. This mechanism is aimed at ensuring the satisfaction of creditors' claims even in the event of the non-realization of the enterprise as a property complex, and also at creating a legal basis for disposing of the debtor's property.

3. This provision is aimed at ensuring the continuity of activity and the stability of the market in the sale of the assets of debtor enterprises that are subjects of a natural monopoly. In particular, the property of the enterprise used in the process of producing goods, providing services or realizing them may be put up at an electronic online auction exclusively as a single property complex. This requirement is conditioned by the fact that the sale of the assets separately may lead to a violation of the stability of the enterprise's activity and of the right of consumers to the uninterrupted receipt of the corresponding services. Consequently, the sale must be carried out in such a manner that the further sustainable functioning of the enterprise is ensured.

4. This provision imposes on the liquidation manager the duty to ensure important social and economic guarantees in the activity of debtor enterprises that are subjects of a natural monopoly. In particular, in the course of the liquidation procedure, the liquidation manager is obliged to continue performing the contracts for the supply of goods, the performance of works or the provision of services of such an enterprise, where the cessation of the indicated contracts may have a negative impact on the living conditions of the population or on the activity of enterprises with

a continuous production cycle. Thereby, the uninterrupted provision of the necessary goods, works and services to the population and socially significant enterprises is ensured even in the process of liquidating a subject of a natural monopoly, which contributes to preserving economic and social stability.

5. This provision establishes clear periods and a procedure for control over the conduct of the liquidation procedure. The liquidation of a debtor enterprise that is a subject of a natural monopoly must be completed within six months from the day of the rendering by the court of the decision and the appointment of the liquidation manager. The indicated period is established in order to ensure the continuity of the enterprise's activity and the effective realization of its property. Where, upon the expiry of the six-month period, the property has not been realized, the liquidation manager completes the liquidation procedure by way of the substitution of assets in the procedure provided for in Article 131 of the Law, that is, by way of creating on the basis of the debtor's property one or several joint-stock companies. In this connection, such actions are carried out on the basis of a decision of the meeting of creditors, and, in the event of the refusal of the meeting of creditors—in accordance with a decision of the local state authority. This provision is aimed at ensuring the timely and lawful distribution of property, and also at maintaining stability and proper control in the process of liquidation.

See also: International Commentary, p. 785.

Article 177. Specifics of the Insolvency of Agricultural Enterprises

Prior to the institution of a case concerning the insolvency of agricultural enterprises, pre-trial rehabilitation may be applied to them in the procedure established by legislation.

In the consideration of a case concerning the insolvency of an agricultural enterprise, local executive authorities may also be persons participating in the case.

The article being commented upon determines the specifics whereby, in the event of the arising of the insolvency of agricultural enterprises, prior to their being recognized insolvent by the court in judicial procedure, measures for their financial recovery may be applied by means of pre-trial rehabilitation, and it is also provided that local executive authorities may participate in the consideration of the case.

1. In the process of considering a case concerning the insolvency of agricultural enterprises, the Law provides for them, as a special category of entities, special legal guarantees. In particular, even where the enterprise displays signs of insolvency, prior to the institution of judicial proceedings against it, measures of pre-trial rehabilitation, that is, measures for financial recovery, may be applied. These measures are aimed at reducing the enterprise's indebtedness, restoring its

production activity and preventing bankruptcy. Their purpose is to ensure state support for the agricultural sector and to preserve its socially significant role.

In the Law, agricultural enterprises are presented in the form of an agricultural cooperative, a farming enterprise, and a dehkan enterprise with the creation of a legal entity, and also other legal entities whose principal type of activity is the production of agricultural products. Matters connected with the insolvency of agricultural enterprises, including the procedure and grounds for conducting pre-trial rehabilitation, are regulated by this Law, and also by the **Law of the Republic of Uzbekistan "On the Rehabilitation of Agricultural Enterprises."**

In accordance with the requirements of legislation, one of the specifics of the consideration by the courts of cases concerning the insolvency of agricultural enterprises is that the courts, prior to the institution of such a case, must study the circumstances connected with the application to agricultural enterprises of pre-trial rehabilitation in the procedure established by legislation. This is because the application of the measure of pre-trial rehabilitation with respect to agricultural enterprises is one of the important specifics of insolvency proceedings. The objects of rehabilitation are agricultural enterprises operating at a loss, insolvent and in an economically unfavorable situation. The subjects of rehabilitation may be the owners of the property of these enterprises, creditors or other legal entities and natural persons.

In contrast to the periods for conducting pre-trial rehabilitation applied with respect to enterprises in insolvency cases, under Article 13 of the Law of the Republic of Uzbekistan "On the Rehabilitation of Agricultural Enterprises," the period of pre-trial rehabilitation of an agricultural enterprise is established for a period of up to twenty-four months. In the cases provided for by legislation, in particular, where, as a consequence of natural disasters, climate change and other circumstances of force majeure, a direct decline in production and a deterioration of the financial condition of the agricultural enterprise has occurred, the extension of this period for a further twelve months is permitted. With respect to entities that are not agricultural enterprises, this period, under paragraph 5 of the Regulation "On Approval of the Regulation on the Procedure for Conducting Pre-Trial Rehabilitation with State Assistance," approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 708 of 28 October 2024, is established for a period of from twelve to twenty-four months, and the extension of this period is not provided for by the indicated rules. The special establishment of these periods is explained by the fact that the adoption of measures to preserve and financially recover business entities specifically in the sphere of agriculture is of exceptionally important significance for ensuring the stability of the country's economy, the employment of the population, social protection and raising the level of the well-being of citizens.

The pre-trial rehabilitation of agricultural enterprises may be conducted with the involvement of state funds or without their involvement. In the process of pre-trial rehabilitation, state funds are involved exclusively on the condition of their return.

In this connection, state support for agricultural enterprises is provided by the authorized state body, taking into account the importance and significance of the rehabilitation, proceeding from the most important directions of economic and social development, the development of the sector, and also taking into account the extent to which the enterprise is significant for the labor market and the creation of jobs. For these purposes, one or several of the following measures may be applied: the organization of the mutual offset of debts; the full or partial acquisition of overdue debt; the extension, for the period of the rehabilitation, of the periods for the payment of taxes and other mandatory payments, as well as the return of state credits in accordance with legislation; the reprofiling of the enterprise for the purpose of adapting its activity to the output of competitive products; the attraction of highly qualified specialists from outside; the training and retraining of employees; the provision of financial assistance by legal entities and natural persons interested in restoring the solvency of the agricultural enterprise and continuing its activity; the conclusion of an agreement between the enterprise and the creditor (creditors) on extending the periods for repaying the indebtedness to the creditors and/or on granting an installment plan for payments or on releasing from payment a certain part of the indebtedness in order to ensure the continuation of the enterprise's activity; the introduction of external management; the reorganization of the enterprise.

The opinion of the authorized body confirming the presence of real possibilities for restoring the solvency and economic potential of an agricultural enterprise is a ground for adopting a decision to conduct rehabilitation. The opinion is prepared on the basis of a financial and economic activity analysis of the agricultural enterprise for the agricultural year. In the event of the adoption of a decision to conduct the rehabilitation of an agricultural enterprise, the authorized body introduces a moratorium on the enterprise's monetary obligations, taxes and other mandatory payments, the period for the discharge of which fell due prior to the adoption of the decision to conduct the rehabilitation. During the period of the moratorium, financial (economic) sanctions are not applied. The moratorium does not extend to claims arising from citizens' labor legal relations, claims for the recovery of alimony and the payment of remuneration under authors' contracts, and also to claims of citizens against an agricultural enterprise which, in the procedure established by legislation, bears responsibility for causing harm to the life or health of citizens.

2. The participation of local executive authorities in the consideration of a case concerning the insolvency of an agricultural enterprise is conditioned by the social and economic significance of the agricultural sector. Such enterprises act not only as economic entities but also play an important role in ensuring the employment of the population, food security and regional infrastructure. In this connection, local authorities, participating in the case, may take the initiative in preserving the enterprise, stabilizing its activity and mitigating the social consequences. For example, they may propose measures to support the debtor enterprise, provide information on matters of land and property relations, or participate in the process of

pre-trial or judicial rehabilitation, thereby contributing to the effective resolution of the case. Thus, the participation of local executive authorities in insolvency cases is aimed at protecting the socio-economic interests of the state. In particular, under the requirements of Articles 19 and 20 of the Law of the Republic of Uzbekistan "On the Rehabilitation of Agricultural Enterprises," in conducting the pre-trial rehabilitation of an agricultural enterprise that is subject to rehabilitation on the basis of external management, in the event of the transfer to the external manager of the rights and duties to manage the legal entity and to dispose of its property, the external manager is appointed by the khokim of the district in agreement with the authorized body, the owner of the property of the agricultural enterprise and the creditor (creditors). The rule allowing the participation of local executive authorities in the consideration of an insolvency case involving an agricultural enterprise may be applied to all insolvency procedures.

The procedural order of the participation of local executive authorities in a case concerning the insolvency of an agricultural enterprise is explained as follows. In the consideration by the court of a case concerning the insolvency of an agricultural enterprise, in addition to the parties, local executive authorities may also be drawn into participation in the case as third parties, whether asserting or not asserting independent claims regarding the subject matter of the dispute. The court renders a separate ruling on this, and this action is carried out in accordance with the norms of the Economic Procedure Code regulating the procedure for drawing in persons participating in the case. As a person participating in the case, a local executive authority possesses all procedural rights in the insolvency case, namely: to participate in court sessions, give explanations and opinions, submit evidence, file applications and petitions, receive copies of judicial acts and exercise other rights. The principal purpose of the participation of a local executive authority consists in providing the necessary information for assessing the economic condition of the enterprise, its significance for the region and the social consequences that may arise as a result of the cessation of its activity. The court, on the basis of this information, takes into account the interests of the region in adopting its decision. The drawing in of local executive authorities by the court in procedural order and their participation in the case make it possible for the court, in considering the matter of adjudging the agricultural enterprise insolvent, to assess the socio-economic factors comprehensively.

The participation of local executive authorities is not mandatory in all cases concerning the insolvency of an agricultural enterprise, but is carried out in an optional (discretionary) manner. This means that the economic court, in each specific case, independently adopts a decision on whether to draw in a local authority to participate in the case, taking into account the nature of the case, the significance of the enterprise and the territorial economic consequences of adjudging it insolvent. Where the economic court establishes that the activity of the agricultural enterprise is of substantial significance for the employment of the population, food security or

the regional economy, it recognizes as necessary the participation of a local executive authority. Thus, this provision provides for the participation of local authorities in the case as a possibility, that is, this is not a mandatory requirement under the law, and their participation is carried out on the initiative of the court or on the basis of a petition of interested parties.

See also: International Commentary, p. 785.

Article 178. Specifics of the Procedures of Observation, Judicial Rehabilitation and External Management of Agricultural Enterprises

The procedures of observation, judicial rehabilitation and external management of an agricultural enterprise are introduced for a period until the end of the corresponding period of agricultural works, taking into account the time necessary for the realization of the marketable agricultural products produced. In this connection, the period of the observation procedure may not exceed three months, and the period of the procedures of judicial rehabilitation and external management may not exceed the period established by part three of Article 108 of this Law.

In the event that, during the period of the procedure of judicial rehabilitation or external management, a decline in production and a deterioration of the financial condition of the agricultural enterprise occurred in connection with natural disasters and other force majeure circumstances, the period of the procedure of judicial rehabilitation or external management may be extended for twelve months.

The early termination of the procedure of judicial rehabilitation in accordance with the requirements of Article 103 of this Law may be carried out only taking into account the period of the end of the corresponding period of agricultural works and the time necessary for the realization of the agricultural products produced.

The procedure of external management is not introduced with respect to an agricultural enterprise having the status of a legal entity.

The article being commented upon provides for the application of the procedures of observation, judicial rehabilitation and external management in the process of the insolvency of agricultural enterprises, taking into account the seasonal and other specifics of production in the sphere of agriculture.

1. In contrast to the general rules established for procedures in the insolvency process, the procedures of observation, judicial rehabilitation and external management applied with respect to agricultural enterprises are introduced for a period until the end of the corresponding period of agricultural works, taking into account the time necessary for the realization of the grown produce and agricultural goods. This rule has been developed taking into account the seasonal nature of the activity of agricultural enterprises; that is, it provides that the procedures of observation, judicial rehabilitation and external management must be in effect until the full completion of the entire production cycle—sowing, tending the crops,

obtaining the harvest and realizing the produce produced. This is conditioned by the fact that in agriculture income is mainly obtained at the end of the season, after the realization of the produce. Where the period of rehabilitation or management ends prior to the end of the crop-growing period, the enterprise may be deprived of a source of income and of the possibility of financial recovery. Thus, this provision is a practical guarantee aimed at ensuring the continuity of the enterprise's activity, providing the necessary time for bringing the produce to market and restoring solvency.

This provision establishes the maximum periods of the procedures of observation, judicial rehabilitation and external management applied in the process of the insolvency of agricultural enterprises. The observation procedure commences from the day of the acceptance by the court for its proceedings of the application to recognize the debtor enterprise insolvent. This period is aimed at ensuring the preservation of the debtor's property, conducting an analysis of its financial condition, forming the register of creditors' claims and, proceeding from the established circumstances. The observation procedure continues until the adoption of a decision, following the results of the first meeting of creditors, on the application of the next insolvency procedure. Although the observation procedure ordinarily remains in effect until the end of the corresponding season of agricultural works, its total period may not exceed three months. This is a restriction introduced to prevent the protraction of insolvency cases and to ensure the effectiveness of the control procedure. In addition, the procedures of judicial rehabilitation and external management are also established taking into account the seasonal specifics of agricultural production; however, their period must not exceed the limit established by part three of Article 108 of this Law. This article establishes the general maximum period of rehabilitation and external management (as a rule, up to 30 months). Thus, this provision, taking into account the seasonal nature of agricultural activity, is aimed at preventing the unjustified protraction of insolvency procedures.

2. The Law provides that where, during the period of the procedure of judicial rehabilitation or external management with respect to an agricultural enterprise, as a consequence of natural catastrophes and other circumstances of force majeure, a decline in production and a deterioration of the financial condition of the agricultural enterprise has occurred, the established period of the procedure of judicial rehabilitation or external management may be extended for twelve months. This rule was introduced taking into account the fact that the activity of agricultural enterprises depends to a high degree on natural and external factors. That is, where, during the period of conducting judicial rehabilitation or external management, as a consequence of natural catastrophes or other circumstances of force majeure, a decline in the enterprise's activity, a reduction in production volumes and a deterioration of its financial condition are observed, the court, taking into account these circumstances, extends the period of rehabilitation or external management.

Natural catastrophes and other circumstances of force majeure represent situations that do not depend on human will, and cannot be foreseen and prevented in advance. Upon the occurrence of such circumstances, the temporary difficulties in the activity of agricultural enterprises are taken into account in accordance with legislation. Natural catastrophes are circumstances arising as a consequence of the impact of natural forces independently of human will and having a substantial negative impact on economic activity. They include drought, mudflow, flood, hurricane, storm, earthquake, diseases negatively affecting the harvest, or the spread of pests, epizootics (diseases spreading among agricultural animals) and other similar phenomena. Circumstances of force majeure, in addition to natural catastrophes, represent situations arising independently of human will and temporarily rendering impossible the discharge of obligations. They may include military actions, terrorism, epidemics or pandemics, restrictions introduced by state bodies (for example, quarantine, embargo, prohibition on export or import), emergency interruptions in the electricity supply, water supply or transport system and other similar circumstances.

In the provisions of Article 333 of the CC, circumstances of force majeure are indicated as a ground for release from legal responsibility. The authority to issue a certificate confirming the occurrence of circumstances of force majeure is granted to the Chamber of Commerce and Industry of the Republic of Uzbekistan. This circumstance is of important significance in judicial proceedings or in the discharge of contractual obligations. In legislation (especially in the norms concerning agricultural enterprises), circumstances of force majeure are indicated as a ground for extending the period of judicial rehabilitation or external management. This rule is aimed at providing the enterprise with the possibility of economic recovery in the event of a temporary loss of solvency as a consequence of natural catastrophes, and also at providing additional time for overcoming the temporary difficulties that have arisen. At the same time, it is a legal basis contributing to the continuation of the activity of agricultural enterprises and the preservation of their economic stability even under the unfavorable conditions caused by the impact of natural and economic risks.

3. Article 103 of the Law determines the conditions for the early termination of the procedure of judicial rehabilitation, and it is provided that, in applying this rule with respect to agricultural enterprises, a number of specifics must be taken into account. That is, where the court, on the basis of an application, the materials of the case and other circumstances, plans to terminate the procedure of judicial rehabilitation early, this may be carried out only taking into account the following conditions. *First,* the corresponding period of agricultural works must be completed, that is, the time of sowing, tending the crops, and obtaining the harvest. This is because, upon the early termination of judicial rehabilitation, a risk arises of disrupting the seasonal works and losing the harvest. *Second,* the time necessary for the realization of the grown produce must be taken into account; that is, at the

moment of the termination of judicial rehabilitation, the enterprise must have the possibility of realizing the harvest and returning the funds received. This requirement ensures the timely bringing of the produce to market and the restoration of the enterprise's financial condition. The Law establishes that the early termination by the court of the rehabilitation procedure must be carried out only taking into account the indicated conditions, proceeding from economic and seasonal interests, that is, the possibility of continuing the enterprise's production process and realizing the harvest within the necessary periods must be preserved.

4. Part four of this article determines the sphere of application and the object of the introduction of the external management procedure in the sphere of agriculture. External management represents a special mechanism of control and management appointed by the court for restoring the financial stability of the enterprise and protecting the interests of creditors. At the same time, the provisions of this norm emphasize that the external management procedure is not applied to agricultural enterprises having the status of a legal entity. The principal reason for this consists in the fact that enterprises registered as legal entities already have a system of legal and financial control on the basis of legislation and financial reporting, in connection with which the necessity of applying external management to them is absent.

See also: International Commentary, p. 785.

Article 179. Specifics of the Sale (Assignment) of the Property and Property Rights of Agricultural Enterprises

In the sale (assignment) of the debtor's property, the judicial manager or the debtor's manager must put up for sale at the first auction, in the form of an electronic online auction, the agricultural enterprise as a property complex.

A preferential right to acquire the debtor's property, and also the rights to hold the land, is held by persons engaged in the production of agricultural products and holding a land plot directly adjoining the debtor's land plot. The judicial manager or the debtor's manager, in the sale (assignment) of the indicated property, and also the property rights, is obliged to organize the conduct of a valuation of the value of the indicated property and property rights and to offer the persons to acquire this property at the valuation value.

In the event that the persons indicated in part two of this article have not, within one month, declared their desire to acquire the property and property rights of the agricultural enterprise, the judicial manager or the debtor's manager carries out the realization of the property in accordance with legislation.

In the event of the liquidation of an agricultural enterprise as a consequence of insolvency, the right to use the land plots granted to it may be alienated or pass to another person in the procedure determined by legislation.

The article being commented upon determines the procedure for the fair and effective realization of the property and property rights of an agricultural enterprise

in the process of its insolvency, and also the specifics of alienating them in favor of other persons.

1. Under part one of this article, in the insolvency process, an agricultural enterprise must be put up for sale at the initial auction in the form of an electronic online auction as a property complex. This rule is of a mandatory nature and is aimed at ensuring openness, fair competition and economic efficiency in the process of realizing the property of agricultural enterprises.

In this connection, the agricultural enterprise is put up for sale not by separate assets but as a single property complex, that is, together with the buildings, structures, machinery, land plots and other production assets. Such an approach contributes to preserving the production potential of the agricultural enterprise, ensuring the possibility of restoring its uninterrupted activity, and also preventing the fragmentation of the assets.

At the same time, the form of an electronic auction ensures the openness of the auction and creates equal opportunities for participation for all interested persons. As a result, the sale of the property at a price close to its market value is achieved; the likelihood of instances of the artificial understatement of value in the sale is significantly reduced, as is the risk of corrupt arrangements. This, in turn, expands the possibilities of the judicial manager to effectively protect the interests of creditors.

2. This provision is aimed at establishing preferential rights in the process of realizing the property of an agricultural enterprise. Under it, in the event that the debtor's property is put up for sale, the law grants a preferential right of purchase to persons who are engaged in agricultural activity and hold land plots directly adjoining the land plot belonging to the debtor. The exercise of this preferential right consists in granting these persons the priority to acquire the property before other participants, and also obtaining the property rights connected with the debtor's land plot.

The principal purpose of this legal regulation is to ensure the continuity of the production process by entities directly carrying out agricultural activity and closely connected with land resources, and also to stimulate the rational and effective use of land. In this way, the preservation of the volumes of agricultural production, the maintenance of financial stability in the agrarian sphere and the support of the economic activity of agricultural enterprises are ensured.

At the same time, in accordance with legislation, in the sale or renunciation of the property and property rights of a debtor that is agricultural enterprise, the judicial manager or the debtor's manager is obliged to organize a mandatory valuation of these assets and to put them up for sale based on the valuation. These requirements are aimed at ensuring fairness, openness and economic soundness in the process of realizing the assets of agricultural enterprises. In particular, the conduct of a valuation of the assets ensures their sale at a price as close as possible to the market value. In addition, the offering of the property and property rights at the valuation

value, above all, guarantees the possibility of their acquisition by persons holding a preferential right of purchase.

At the same time, the process of alienating the debtor's property in favor of other persons must also be carried out in a fair and transparent procedure, with the valuation value of the assets being applied as the principal criterion. This serves to prevent instances of the unjustified realization of assets at understated prices.

3. Part three of this article clearly establishes the period for the exercise of the preferential right by persons having the right to acquire the property of the debtor that is an agricultural enterprise, and also to hold the land. In other words, this provision is aimed at protecting the interests of persons holding a preferential right in the process of realizing the property of an agricultural enterprise, and also at ensuring that they adopt the corresponding decision within the established period. Under this provision, where persons engaged in the production of agricultural products and holding land plots adjoining the debtor's land plot have not, within one month, expressed the intention to acquire the property and property rights, the judicial manager or the debtor's manager acquires the right to realize these assets in the general procedure established by legislation.

The essence of this provision consists in the fact that persons holding a preferential right are provided with the possibility of acquiring the property on a priority basis; however, where they have not availed themselves of this right within the established one-month period, the assets are sold to other persons on the basis of market principles, in a fair and lawful procedure, with the ensuring of their effective realization at prices as close as possible to the market value.

4. Part four of this article establishes the legal mechanisms connected with land plots in cases of the cessation of the activity of an agricultural enterprise as a result of its insolvency. In particular, it is provided that in the event of the liquidation of an agricultural enterprise, the land plots granted to it may be transferred or passed to other persons in accordance with the requirements of legislation.

This provision means that a change in the right to a land plot must be carried out exclusively in the procedure and on the basis of the official procedures established by legislation.

At the same time, with respect to land plots, preferential rights are also taken into account. In particular, land plots may be granted on a priority basis to persons engaged in agricultural activity and holding land plots directly adjoining the debtor's land plot. Such an approach is aimed at ensuring the rational and effective use of land resources, preserving the continuity of agricultural production, and also protecting the interests of creditors. Thus, this provision guarantees the redistribution of the right to a land plot as a result of the insolvency of an agricultural enterprise in an acceptable and fair procedure within the framework of legislation, and also contributes to ensuring the stability of production activity in the agrarian sphere.

See also: International Commentary, p. 785.

Article 180. Grounds for Adjudging a Bank Insolvent

The court accepts for consideration a case concerning the compulsory liquidation of a bank as insolvent upon the submission of an application by a liquidator appointed by the Central Bank.

The article being commented upon establishes that the adjudication process for a bank to be compulsorily liquidated due to insolvency may be commenced by the court on lawful grounds only in the event of an application by a liquidator appointed by the Central Bank of the Republic of Uzbekistan (hereinafter in the text—the Central Bank).

The cessation of a bank's activity and the liquidation of a bank may be carried out in the form of voluntary or compulsory liquidation. The compulsory liquidation of a bank is carried out on the basis of a decision of the Board of the Central Bank on the revocation of the license and the compulsory liquidation of the bank. In the compulsory liquidation of a bank, the liquidator is appointed by the Central Bank. The liquidator is the sole representative of the bank being compulsorily liquidated.

After the approval by the liquidator of the interim liquidation balance sheet, having notified the Central Bank, the liquidator has the right to apply to the court with an application for the consideration of a case concerning the adjudging of the bank being compulsorily liquidated as bankrupt and the institution of proceedings concerning its liquidation in the following cases: a) where the decision on the compulsory liquidation of the bank was adopted in connection with the bank's insolvency; b) where, in the process of the compulsory liquidation of the bank, the signs of insolvency indicated in part two of Article 20 **of the Law of the Republic of Uzbekistan "On the Rehabilitation and Liquidation of Banks" arise.**

The following documents are appended to the application by the liquidator: 1) the decision on the compulsory liquidation of the bank; 2) the interim liquidation balance sheet of the bank; 3) the register of the recognized claims of the bank's creditors.

Thus, this article ensures the preservation of the stability of the banking system, the prevention of unjustified applications to the court, and guarantees that the insolvency process will be carried out under professional control.

See also: International Commentary, p. 785.

Article 181. Specifics of the Consideration of a Case Concerning the Insolvency of a Bank

The relations arising in the inability of a debtor bank to satisfy creditors' claims, and matters connected with the insolvency of a bank, are regulated by the Law of the Republic of Uzbekistan "On the Rehabilitation and Liquidation of Banks."

The procedures of judicial rehabilitation and external management are not introduced with respect to a bank.

The persons participating in a case concerning the insolvency of a bank, in addition to those provided for in Article 38 of this Law, are also the Central Bank of the Republic of Uzbekistan and the Deposit Guarantee Agency.

The article being commented upon provides that the relations arising in cases of the insolvency of a bank are regulated by the Law "On the Rehabilitation and Liquidation of Banks," that the procedures of judicial rehabilitation and external management are not applied to a bank, and also that the Central Bank and the Deposit Guarantee Agency participate in the case as persons participating in the case.

1. This provision establishes that the legal relations arising upon the onset of the insolvency of banks are regulated not only by the general rules on insolvency but also by a special procedure in accordance with the Law of the Republic of Uzbekistan "On the Rehabilitation and Liquidation of Banks." —

A bank is considered insolvent upon the arising of one of the following circumstances: a) where the bank is unable to satisfy the claims of its clients within seven days owing to a shortage of funds; b) where the bank's obligations exceed its assets; c) where the bank's capital adequacy ratios and/or the size of its charter capital have decreased by fifty or more percent below the minimum size established by legislation; d) where the Central Bank has identified instances in which the reliable reflection in the reporting of information on the bank's financial condition leads to the arising of the above-indicated grounds; e) where there are circumstances creating a threat to the preservation of the funds transferred to the bank by depositors and creditors.

In this connection, the court, on the basis of a decision of the Central Bank on the compulsory liquidation of the bank, adopts a decision on the institution of proceedings concerning the adjudication of the bank as bankrupt and its liquidation or on the refusal thereof. Proceedings concerning the adjudication of a bank as bankrupt and its liquidation are carried out in accordance with the requirements of Chapter 11 of the Law of the Republic of Uzbekistan "On Insolvency."

In this connection, the provisions of Article 59 of the Law of the Republic of Uzbekistan "On the Rehabilitation and Liquidation of Banks" are applied to the consequences of the commencement of compulsory liquidation, and the satisfaction of creditors' claims is carried out in the procedure provided for in its Articles 64 and 65.

From the moment of the adoption by the court of a decision on the institution of proceedings concerning the adjudication of a bank as bankrupt and its liquidation, the duties of the liquidator for the compulsory liquidation of the bank, and also the powers of the Central Bank in this sphere, cease.

2. This provision strictly establishes that such general insolvency procedures as judicial rehabilitation or external management are not applied with respect to banks. In contrast to other economic entities, banking activity includes such factors directly affecting overall economic stability as depositors' funds, the stability of the payment and settlement system, and also financial security, in connection with which their transfer into temporary management or the conduct of judicial rehabilitation is recognized as ineffective and risky. In this connection, banks are stabilized or liquidated only on the basis of the special mechanisms established by special legislation—the Law of the Republic of Uzbekistan "On the Rehabilitation and Liquidation of Banks," which ensures the stability of the system, the protection of the rights of depositors and the reduction of financial risks.

3. Part three of this article expands the circle of persons participating in the case, taking into account that a case concerning the insolvency of a bank represents a special legal relation of important significance. Under this provision, the persons participating in an insolvency case are determined to be not only the debtor bank; the judicial manager; the creditors; the authorized state body; the person that furnished security for the debtor's obligations, but also the Central Bank and the Deposit Guarantee Agency.

The reason for this consists in the fact that the Central Bank, as the principal regulator exercising supervision over the activity of banks, possesses complete information on the actual financial condition, liquidity and stability of the bank. The Deposit Guarantee Agency, in its turn, protects the interests of depositors, participates in compensation payments, and adopts important financial decisions in the process of liquidating the bank. The Deposit Guarantee Agency is a state institution and the authorized body in the sphere of ensuring guarantees for the protection of deposits in banks. Its principal tasks are determined by **the Law of the Republic of Uzbekistan "On Guarantees for the Protection of Deposits in Banks."**

Thus, this provision guarantees the effectiveness of the judicial proceedings, the adoption of well-founded and objective decisions, and also the ensuring of the stability of the banking system and the protection of the interests of depositors.

See also: International Commentary, p. 785.

Article 182. Consideration of a Case Concerning the Insolvency of an Insurer

A person participating in a case concerning the insolvency of an insurer, in addition to the persons provided for in Article 38 of this Law, is also the specially authorized state body in the field of regulating insurance activity.

The article being commented upon, taking into account that the insurance sphere is characterized by a high degree of risk, establishes the mandatory participation in the insolvency process of the specially authorized state body.

In accordance with Article 47 **of the Law of the Republic of Uzbekistan "On Insurance Activity,"** the authorized state body carries out the state regulation of insurance activity.

The authorized state body, in particular: a) establishes the solvency standards mandatory for performance, and also the procedure for their determination, the maximum permissible or minimum size of the obligations of insurers (reinsurers) for individual types of risks and the methodology for calculating the total size of obligations, and also the procedure and periods for providing information on the solvency of insurers (reinsurers); b) exercises control over the observance by professional participants in the insurance market of the legislation on insurance activity, the ensuring of the established solvency standards and other requirements for their financial stability.

In accordance with paragraph 8 of the **Resolution of the President of the Republic of Uzbekistan No. PP-291 of 2 September 2023 "On Additional Measures for the Development of the Capital Market,"** the National Agency for Prospective Projects of the Republic of Uzbekistan is determined as the authorized state body exercising supervision over the activity of insurance organizations, and also carrying out in this sphere the functions of regulation, licensing and conducting permitting procedures.

Since this authorized state body possesses the most complete information on the financial stability of the insurer, the formation of reserves, the provision of insurance payments, and the observance of licensing requirements, this ensures the adoption by the court of objective and well-founded decisions taking into account the specific risks of this sector. At the same time, the indicated requirement is aimed at protecting the interests of the insured, ensuring the continuity of compensation payments and maintaining the stability of the insurance market.

See also: International Commentary, p. 786.

Article 183. Sale of the Property Complex of an insurer

The sale of the property complex of an insurer may be carried out in the process of the external management procedure in accordance with Article 126 of this Law.

The purchaser of the property complex of a debtor insurer may be only an insurance organization.

In the event of the sale of the property complex of an insurer in the process of the external management procedure, all rights and duties under the insurance contracts in respect of which, as of the date of the sale of the insurer's property complex, an insured event has not occurred pass to its acquirer.

In conducting liquidation proceedings, the property complex of an insurer may be sold only with the consent of the purchaser to assume the insurance contracts in respect of which an insured event has not occurred prior to the date of the adjudication of the insurer as bankrupt.

The article being commented upon establishes that the property complex of an insurer may be sold only in a special procedure and exclusively to an insurance organization, and that the rights and duties under the contracts in respect of which an insured event has not occurred must pass to the purchaser.

1. Under this provision, the sale of the property complex of an insurer is carried out not in the general procedure of freely conducting activity, but only within the framework of the external management procedure and with strict observance of the special rules established by Article 126 of the Law.

This requirement ensures that the process of selling the assets of the insurance organization is carried out under professional control, in a transparent and lawful procedure, since the assets and obligations of the insurance organization have a high level of social significance and risk. Within the framework of external management, the special manager assesses the financial condition of the insurer, the possibilities of preserving its assets and realizing them on the most advantageous conditions.

Thus, this provision is aimed at ensuring the interests of the insured, preserving the integrity of the insurance portfolio and the stability of the market, and also guarantees that the process of selling the assets will be carried out independently of the interested parties and under legal control.

2. This provision establishes that the property complex of an insurer, that is, the aggregate of its insurance portfolio, assets, obligations and contracts, may be sold not to an ordinary economic entity but exclusively to an insurance organization.

The introduction of such a requirement is connected with the specific nature of insurance activity and its high social significance. The property complex of an insurer contains hundreds and even thousands of insurance contracts, potential payments under them, and the reserves formed. Therefore, the management of such a complex

may be carried out only by an organization holding a license in the sphere of insurance, qualified specialists, and financial stability.

This provision is aimed at ensuring the continuity of insurance services, protecting the rights of the insured, and also preventing the improper management of the insurance portfolio or its passing into the hands of a risky investor. Thus, the possibility of acquiring the complex exclusively by an insurance organization guarantees the stability of the insurance market and the protection of the interests of the insured.

3. Under this provision, where the property complex of an insurer is sold during external management, the rights and duties under all insurance contracts in respect of which, as of the date of the sale, an insured event has not occurred pass in full to the new insurer. This means that the insurance organization that has acquired this complex assumes all functions, including: a) the receipt of insurance premiums; b) the effecting of payments upon the occurrence of an insured event; c) the performance of the contracts and the preservation of their validity; d) the continuation of relations with the insured.

The purpose of this provision consists in protecting the legal and financial interests of the insured, ensuring the continuity of insurance services, and also in the correct and transparent transfer of the insurance portfolio to a new, financially stable organization. Such practice prevents the situation in which the insured are left without protection as a consequence of a change of insurer, and contributes to ensuring the stability of the market.

4. This provision directly establishes additional, stricter conditions for the sale of the property complex in the case where a liquidation procedure is being conducted with respect to the insurer. This requirement is aimed at protecting the interests of the insured, taking into account the social significance and the high level of risk in the sphere of insurance. Since, under conditions of insolvency, the possibilities of the insurer to effect insurance payments are substantially restricted, the insured find themselves under a potential threat.

In this connection, the new insurance organization acquiring the complex is obliged to assume in full the obligations under these contracts, including: a) the effecting of payments upon the occurrence of an insured event; b) the actual continuation of the validity of the contracts; c) the preservation of relations with the insured.

This mechanism ensures the continuity of insurance services, protects the financial interests of the population and contributes to preserving the stability of the insurance market.

See also: International Commentary, p. 786.

Article 184. The Right of Claim of the Insured (Beneficiaries) in the Event of the Insolvency of an Insurer

In the event of the adoption by the court of a decision to recognize an insurer bankrupt and to commence liquidation proceedings, all insurance contracts in respect of which an insured event has not occurred prior to the date of the adoption of the indicated decision shall cease, with the exception of the cases provided for in parts three and four of Article 183 of this Law.

The insured (beneficiaries) under insurance contracts that have ceased on the grounds provided for in part one of this article are obliged to return the part of the insurance premium paid to the insurer in proportion to the difference between the term of the insurance contract and the period during which this contract was in effect, unless otherwise provided for by legislation.

The insured (beneficiaries) under insurance contracts in respect of which an insured event occurred prior to the moment of the adoption by the court of a decision to recognize the insurer bankrupt and to commence liquidation proceedings have the right to claim payment of the insurance indemnity (insured sum) from the liquidation manager.

The article being commented upon establishes the consequences of an adjudication that an insurer is bankrupt. All contracts in respect of which an insured event has not occurred cease (subject to individual exceptions). Moreover, the corresponding part of the insurance premium paid by the insured is returned, and the right to claim insurance payment under contracts in respect of which an insured event occurred prior to the adoption of the decision to recognize as bankrupt is preserved.

1. Under this provision, where the court recognizes an insurer bankrupt and adopts a decision to commence proceedings concerning the case of liquidation, all insurance contracts in respect of which, as of this date, an insured event has not occurred cease. Thereby, the law restricts the future obligations of the insurer in the process of liquidation proceedings and protects the interests of creditors. However, the exception is the following cases provided for in parts three and four of Article 183 of the Law: 1) where the property complex of the insurer was sold within the framework of the external management procedure, all rights and duties under the insurance contracts in respect of which, as of the date of the sale of the property complex, an insured event has not occurred pass to the person that acquired this complex; 2) in conducting liquidation proceedings, the property complex of the insurer may be sold only where the purchaser agrees to assume the insurance contracts in respect of which an insured event has not occurred prior to the date of the adjudging of the insurer as bankrupt.

2. Under this provision, where an insurance contract has ceased in connection with the adjudging of the insurer as bankrupt, the insured (or beneficiary) has the right to the return of funds in the amount of the unused part of the insurance premium paid. The amount to be returned is calculated in proportion to the difference between

the period of validity of the contract and the period up to the moment of its cessation, that is, only that part of the premium paid which relates to the "unused" period of validity of the contract is returned. Where legislation establishes other rules, this procedure is applied in accordance with such special rules.

3. Under part three of this article, where an insured event occurred prior to the adoption by the court of a decision to recognize the insurer bankrupt and to institute proceedings concerning its liquidation, the insured or beneficiary retains the right to receive the insurance payment. In this connection, the adjudication of the insurer as bankrupt does not terminate its duty to effect payments for insured events that occurred earlier and have lawful grounds. In such cases, the duty to pay the insurance indemnity passes to the liquidation manager, who must effect the corresponding payments in the procedure established by the legislation on insolvency.

See also: International Commentary, p. 786.

Article 185. Satisfaction of the Claims of an Insurer's Creditors

In the event of the adjudication by the court of an insurer as bankrupt, creditors' claims are satisfied in the following order:

in the first order—the claims of the insured under contracts of mandatory insurance in the life insurance sector;

in the second order—the claims of the insured under other contracts of mandatory insurance;

in the third order—the claims of other insured (beneficiaries);

in the fourth order—the claims under payment (enforcement) documents providing for taxes and duties. After the full satisfaction of the indicated claims, the claims for social insurance and the claims of citizens for compensation for damage caused to their property by a crime or administrative offense are satisfied;

in the fifth order—the claims of the other creditors of the insurer.

The article being commented upon establishes the order for the satisfaction of creditors' claims in the event of the adjudication by the court of an insurer as bankrupt.

This provision, in contrast to the order established by Article 150 of the Law, also provides for the division of the insured into separate categories and determines the order for the satisfaction of their claims. Such an order is aimed at ensuring a balance of interests by way of clearly determining the priority of the satisfaction of the claims of various creditors.

Nevertheless, the satisfaction of the claims of creditors of all five orders is carried out only after the extraordinary satisfaction of the claims provided for in Article 150 of the Law, namely: the court costs, the costs of paying for the services of judicial managers, current communal and operational payments, the costs of insuring the debtor's property, and also the claims under current monetary obligations that arose after the institution of the case concerning the debtor's insolvency. In addition, the

claims of citizens to whom the debtor bears responsibility in accordance with law for causing harm to life or health are satisfied extraordinarily.

Thus, this provision establishes a clear hierarchy for the satisfaction of creditors' claims in the event of the bankruptcy of an insurer, ensuring above all the protection of claims having social significance and connected with mandatory insurance. As a result, interests connected with the life and health of citizens, public interests and the obligations of the state are ensured on a priority basis, whereas the remaining claims are satisfied on a residual basis.

See also: International Commentary, p. 786.

Article 186. Specifics of the Insolvency of Professional Participants in the Securities Market

A person participating in a case concerning the insolvency of a professional participant in the securities market, in addition to the persons provided for in Article 38 of this Law, is also the authorized state body for the regulation of the securities market.

The specifics of the insolvency procedures of professional participants in the securities market not regulated by this Law, and also measures for protecting the rights and interests of investors in the securities market, may be established by legislative acts.

The procedure for the prevention of insolvency and the conduct of pre-trial procedures for restoring the solvency of professional participants in the securities market is established by legislation.

The article being commented upon provides for the participation of the authorized state body in cases concerning the insolvency of professional participants in the securities market, and also establishes the possibility of regulating by legislation the special procedures, the mechanisms for protecting investors' rights and the pre-trial procedures applied in this sphere.

1. A professional participant in the securities market, provided for in this provision, means a legal entity carrying out professional activity in the securities market.

Professional activity in the securities market is carried out as: 1) an investment intermediary; 2) an investment consultant; 3) an investment fund; 4) a trustee of investment assets; 5) an organizer of over-the-counter trading in securities.

An investment intermediary is a professional participant in the securities market who, on the instructions of a client, concludes transactions and operations with securities in the name of the client and at the client's expense.

An investment consultant is a legal entity providing consulting services on matters of the issue, placement and circulation of securities, the analysis and forecasting of the condition of the securities market and its participants, providing

transfer-agent services, and also carrying out the retraining and advanced training of specialists of the securities market.

An investment fund is a legal entity in the form of a joint-stock company issuing shares for the purpose of attracting funds and investments of investors into investment assets.

A trustee of investment assets is a legal entity which, during an established period, carries out in its own name trust management in the interests of the owner or a person indicated by it of: a) securities, including securities received in the process of managing investment assets; b) funds intended for investment in securities and received in the process of managing investment assets, transferred to it in management and belonging to another person.

An organizer of over-the-counter trading in securities is a legal entity carrying out activity in organizing trading in securities using order-receipt points and special computer trading systems, providing investors with the possibility of participating in trading without the involvement of intermediaries.

Under Article 55 of the **Law of the Republic of Uzbekistan "On the Securities Market"** (in the new wording), the authorized state body for the regulation of the securities market is determined by the President of the Republic of Uzbekistan.

In accordance with paragraph 8 of the **Resolution of the President of the Republic of Uzbekistan No. PP-291 of 2 September 2023 "On Additional Measures for the Development of the Capital Market,"** the National Agency for Prospective Projects of the Republic of Uzbekistan is determined as the authorized state body for the regulation of the securities market.

The authorized state body for the regulation of the securities market, in particular: a) implements state policy in the sphere of the formation, development, supervision and regulation of the securities market; b) carries out the licensing of professional activity in the securities market, and also implements permitting and notification procedures in this sphere; c) ensures the protection of the rights and legitimate interests of investors and owners of securities.

For this reason, this provision especially notes that the authorized state body for the regulation of the securities market is also a person participating in an insolvency case, along with the debtor, the judicial manager, the creditors, other state bodies and the person that furnished security for the debtor's obligations.

2. Under this provision, the matters of the insolvency of professional participants in the securities market are not limited exclusively to the provisions of the Law. Special procedures and sectoral specifics not provided for by this Law may be established by other normative-legal acts regulating the securities market. Such acts include: the Law of the Republic of Uzbekistan "On the Securities Market"; Decree of the President of the Republic of Uzbekistan No. UP-5630 of 14 January 2019 "On Measures for the Radical Improvement of the System of Management of State Assets, Antimonopoly Regulation and the Capital Market"; Resolutions of the President of the Republic of Uzbekistan No. PP-291 of 2 September 2023 "On

Additional Measures for the Development of the Capital Market" and No. PP-101 of 24 March 2023 "On Measures for the Effective Organization of the Activity of the State Assets Management Agency"; Resolutions of the Cabinet of Ministers of the Republic of Uzbekistan No. 23 of 11 January 2024 "On Measures for the Organization of the Activity of the State Assets Management Agency of the Republic of Uzbekistan" and No. 238 of 26 April 2024 "On Approval of the Regulation on the Procedure for the Remote Digital Identification of Clients in the Securities Market."

The above-indicated and other normative-legal acts provide for the comprehensive regulation of the procedure for the creation, activity, and powers of professional participants in the securities market, and also the ensuring of the protection of the rights and legitimate interests of investors. In addition, this provision establishes that, in the event of the insolvency of professional participants in the securities market, the courts and other bodies are obliged to be guided by the special norms of the legislation regulating this sphere. This ensures that the insolvency procedures in the securities market are carried out on the basis of a complete and interconnected system of national legislation.

3. Part three of this article provides, *first,* that professional participants in the securities market, upon the arising of a threat of insolvency, are obliged to adopt measures aimed at preventing it; *second,* that the procedure for conducting pre-trial procedures for restoring their solvency must be determined by legislation.

In particular, by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 708 of 28 October 2024, the Regulation "On the Procedure for Conducting Pre-Trial Rehabilitation with State Assistance" was approved. This Regulation regulates the matters of conducting pre-trial rehabilitation with the provision of state support for the purpose of the financial recovery of enterprises displaying signs of insolvency, including professional participants in the securities market, and also of restoring their solvency.

Pre-trial rehabilitation with the provision of state support is conducted with respect to an enterprise displaying signs of insolvency, prior to the institution by the court of a case concerning insolvency, and provides for the restoration of the enterprise's solvency, and also the creation of conditions for its effective functioning in the future.

See also: International Commentary, p. 786.

Article 187. Requirements for Judicial Managers in a Case Concerning the Insolvency of Professional Participants in the Securities Market

A judicial manager in a case concerning the insolvency of a professional participant in the securities market must have passed attestation for carrying out activity as a judicial manager, and also must hold a qualification certificate of a specialist of the securities market issued by the authorized state body for the regulation of the securities market.

The article being commented upon establishes that, in a case concerning the insolvency of a professional participant in the securities market, the judicial manager is obliged not only to hold a certificate of a judicial manager but also to possess a qualification certificate issued by the authorized body for the securities market.

In a case concerning the insolvency of a professional participant in the securities market, the judicial manager must, in the procedure established by legislation, obtain both a qualification certificate of a judicial manager and a qualification certificate of a specialist of the securities market.

This procedure is established by the Unified Administrative Regulation for the Provision of State Services for the Issue of Individual Types of Qualification Certificates, approved by Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 635 of 30 November 2023. The indicated Administrative Regulation determines the procedure for conducting the qualification examination for natural persons, for issuing, suspending the validity of, and annulling qualification certificates within the framework of the provision of the corresponding state service. Appendix No. 6 to this Regulation establishes the procedure for issuing a qualification certificate of a judicial manager, and Appendix No. 10—the procedure for conducting attestation of natural persons to obtain the right to carry out operations with securities.

See also: International Commentary, p. 786.

Article 188. Restrictions on the Conclusion of Transactions by a Professional Participant in the Securities Market

The restrictions on the conclusion of transactions by a professional participant in the securities market in the application to it of insolvency procedures do not extend to transactions with the securities of its clients concluded on the instructions of investors in the securities market, confirmed by the investors after the institution of the case concerning insolvency.

The article being commented upon establishes the specifics of the application of restrictions on the conclusion of transactions with respect to a professional participant in the securities market in the application to it of insolvency procedures.

The restrictions on the conclusion of transactions provided for in Articles 81, 96, 118 and 141 of the Law during the period of observation, judicial rehabilitation, external management and liquidation proceedings do not extend to transactions with the securities of the clients of a professional participant in the securities market with respect to which insolvency procedures are applied. In this connection, such transactions must meet the following conditions: *first,* they must be concluded in the securities market after the institution of the case concerning insolvency; *second,* they must be concluded on the basis of instructions confirmed by investors.

See also: International Commentary, p. 786.

Article 189. Specifics of the Procedures of Observation, External Management and Liquidation Proceedings in a Case Concerning the Insolvency of Professional Participants in the Securities Market

From the moment of the introduction of the observation procedure, the temporary manager is obliged, within a ten-day period from the moment of its appointment, to send to the investors in the securities market that transferred to the debtor—a professional participant in the securities market—the securities belonging to them for management, a notice of the institution of the case concerning insolvency and of the entry into the rights of a temporary manager. The securities and other property of clients that are at the disposal of a professional participant in the securities market are not included in the liquidation estate.

From the moment of the introduction of the external management procedure or liquidation proceedings, the remaining securities of clients are subject to return to the clients, unless otherwise provided for by an agreement of the external manager or liquidation manager with the clients.

Where the claims of clients regarding the return of securities of one type belonging to them (of one issuer, one category, one type, one series) exceed the quantity of the indicated securities that are at the disposal of the professional participant in the securities market, the return of the indicated securities to the clients is carried out in proportion to the clients' claims. The claims of clients in their unsatisfied part are recognized as monetary obligations and are satisfied (repaid) in the procedure provided for in Chapter 11 of this Law.

In the course of the external management procedure of a professional participant in the securities market, the external manager may transfer the securities transferred to it in management by clients to another professional participant in the securities market with the consent of and in the name of the clients.

The article being commented upon provides that, in cases concerning the insolvency of a professional participant in the securities market, the procedures of observation, external management and liquidation proceedings include the duty to notify clients, the exclusion of their securities from the liquidation estate, the return of the remaining securities, their proportional distribution in the event of insufficiency, and also the right of the external manager, with the consent of the clients, to transfer the securities to another professional participant in the market.

1. Under part one of this article, after the introduction of the observation procedure, the temporary manager is obliged to notify in written form all investors that transferred their securities in management to the debtor—a professional participant in the securities market—of the institution of the case concerning insolvency and of the entry of the temporary manager into the exercise of its powers. Such a notice must be sent within ten days from the day of its appointment. This requirement is aimed at ensuring the right of investors to receive legally significant information and providing them with the possibility of timely adopting the necessary

measures. In this connection, the securities of clients and other property that is in the possession of the professional participant in the securities market are not included in the liquidation estate. In other words, they are not regarded as the debtor's assets and may not be used for the satisfaction of the claims of its creditors. This provision is a guarantee of the protection of the interests of investors and ensures the preservation of the independent legal status of the clients' assets in the insolvency process.

2. Under this provision, unless otherwise provided for by an agreement concluded by the external manager or liquidation manager with the clients, from the moment of the introduction of the external management procedure or liquidation proceedings, the remaining securities of clients that are at the disposal of the professional participant in the securities market are subject to return to their owners. This rule once again confirms that the legal status of the clients' property is separate from the debtor's assets, and guarantees that, in the insolvency process, the clients' securities may not be used for the satisfaction of creditors' claims. The indicated provision ensures the protection of the clients' securities as their personal property and establishes the duty to return them in a timely manner from the moment of the commencement of the insolvency procedure.

3. Under this provision, where the quantity of securities of one type the return of which the clients demand exceeds the quantity of such securities actually at the disposal of the professional participant in the securities market, the available securities are subject to distribution and return among all clients in proportion to the size of their claims. In this connection, the claim of each client is satisfied in a proportion to the size of its claim. At the same time, that part of the claims which was not satisfied as a consequence of the insufficiency of securities is recognized as a monetary obligation and is subject to satisfaction in the general procedure for the satisfaction of creditors' claims in the insolvency case in accordance with Chapter 11 of the Law. This mechanism is aimed at ensuring the legal protection of the property rights of clients, and also at the fair and proportional distribution of assets in the event of their insufficiency.

4. Under part four of this article, during the exercise of external management with respect to a professional participant in the securities market, the external manager has the right to transfer the securities transferred to it in management by clients to another professional participant in the securities market only with the consent of the clients and in their name. This rule establishes that the securities of clients possess an independent property status, must be managed exclusively in the interests of the clients, and the external manager does not have the right to adopt unilateral or arbitrary decisions on this matter. At the same time, the indicated provision makes it possible to ensure the preservation of client assets under proper professional management during the period of the insolvency procedure, and provides a mechanism for protecting the rights of clients by way of the temporary transfer of their assets to another licensed professional participant in the securities market.

See also: International Commentary, p. 786.

Article 190. Specifics of the Insolvency of a Developer in Shared-Equity Construction

The relations connected with the insolvency of a developer, unless otherwise provided for by this chapter, are regulated by the rules established by this Law regulating the insolvency of a legal entity debtor.

A person participating in a case concerning the insolvency of a developer in shared-equity construction (hereinafter—the developer), in addition to the persons provided for in Article 38 of this Law, is also the authorized state body in the field of regulating construction activity.

The judicial manager, within ten days from the day of its appointment, notifies in writing the person that concluded a contract for participation in shared-equity construction (hereinafter—the shared-equity participant) for the purpose of acquiring the construction object by right of ownership.

For the purpose of completing construction works, objects of uncompleted construction (apartment buildings) into which the funds of participants in construction and/or the funds of participants in shared-equity construction have been attracted, objects of infrastructure and/or engineering-technological objects connected thereto may, by decision of the meeting of creditors, be transferred to another construction organization entered in the established procedure in the Electronic list of developers attracting funds for shared-equity construction (hereinafter—another construction organization). In this connection, the rights and duties of the developer under the contract with the shared-equity participants are transferred to the other construction organization that has accepted these objects for the purpose of completing construction.

The Cabinet of Ministers of the Republic of Uzbekistan determines the procedure for the transfer of a construction object to another construction organization entered in the established procedure in the Electronic list of developers attracting funds for shared-equity construction, on the basis of the proposals of the authorized state body in the field of regulating construction activity.

The value of the construction objects (apartment buildings), objects of infrastructure and/or engineering-technological objects connected thereto transferred by the developer to another construction organization is determined by a valuer engaged by the liquidation manager at the expense of the funds of the debtor-developer.

The article being commented upon provides that, for the purpose of protecting the interests of participants in shared-equity construction, cases concerning the insolvency of a developer are considered in accordance with the general rules; in this connection, the authorized state body is drawn into the process, the participants in shared-equity construction are notified in a timely manner by the judicial manager, objects of uncompleted construction may be transferred to another construction

organization with the corresponding rights and duties passing to it, and the value of such objects is determined by a valuer.

1. Under this provision, where the special chapter devoted to shared-equity construction has not established a special procedure, then, in cases of the insolvency of a developer, the general rules regulating the insolvency of debtor legal entities are applied to it. In other words, in such cases the developer is regarded as an ordinary legal entity and is subject to the general procedure for conducting insolvency procedures.

2. This provision means that, in addition to the persons participating in an insolvency case in the general procedure (the entities indicated in Article 38), in the consideration of a case concerning the insolvency of a construction organization that carried out construction on the basis of shared-equity participation, the relevant authorized state body exercising control and regulation in this sphere also participates in the case on a mandatory basis. Such a body, in accordance with paragraph 5 of **Decree of the President of the Republic of Uzbekistan No. UP-5392 of 2 April 2018 "On Measures for the Radical Improvement of the System of State Management in the Sphere of Construction,"** is the Ministry of Construction and Housing and Communal Services of the Republic of Uzbekistan. This ensures that the state exercises special control over the observance of interests in the sphere of construction, the protection of the rights of participants in shared-equity construction, and also the resolution of matters connected with the completion of construction of objects.

3. Under part three of this article, where a case concerning insolvency has been instituted with respect to a developer, the judicial manager is obliged, within ten days from the day of its appointment, to notify in writing all participants in shared-equity construction who, on the basis of a contract for shared-equity participation in construction, may lay claim to receiving the object into ownership. This provision creates guarantees that the rights and legitimate interests of participants in shared-equity construction will not be violated, and that the participants themselves will be able to assert their claims in a timely manner and take an active part in the insolvency procedure.

4. Under this provision, where the funds of participants in shared-equity construction were used in the construction and the developer became insolvent prior to the completion of construction of the objects, then, by decision of the meeting of creditors, such objects may, in the established procedure, be transferred to another construction organization included in the Electronic Register. The procedure for including developers in the Electronic Register is established by **the Regulation "On Measures for the Settlement of the Process of Shared-Equity Construction of Apartment Buildings," approved by Resolution of the President of the Republic of Uzbekistan No. PP-4732 of 27 May 2020.** Under this Regulation, a developer must be separately included in the Electronic Register for each construction complex. For inclusion in the Electronic Register, the developer, through the electronic

platform, provides the authorized state body with the following documents in electronic form: 1) a copy of the general contract concluded between the developer and the construction contracting organization (general contractor) (in the event of the involvement of a general contractor); 2) copies of the documents on the grant of the land plot and the documents that are the initial permit for carrying out construction and assembly works (the design assignment and the architectural-planning assignment); 3) copies of the design-estimate documentation and the positive expert opinion (with the exception of projects implemented by the "fast-track" method); 4) copies of the contracts concluded with the relevant territorial supervisory organization for carrying out technical and author's supervision over the construction of the complex, and also state control in the process of performing construction and assembly works; 5) a certificate on the absence, on the part of the developer, of overdue indebtedness on taxes and other mandatory payments; 6) a document confirming that the developer possesses its own financial resources in an amount of not less than 20 percent of the value of the construction complex, or a letter of guarantee from a bank on the provision of credit for these funds or for the lacking part thereof. In this connection, the sum of the costs incurred on the construction of the complex is taken into account; 7) a certificate on the separate account opened at a commercial bank for accumulating the funds of participants in shared-equity construction.

The Electronic Register indicates information on the developer that is open to all: its name, taxpayer identification number (STIR), address, founders and other data. Developers not included in the Electronic Register do not have the right to attract the funds of participants in shared-equity construction for construction on the basis of shared-equity participation.

To such a construction organization that has accepted an object of uncompleted construction for the purpose of completing it, all rights and duties of the former developer arising from the contracts concluded with participants in shared-equity construction also pass. That is, the relations with participants in shared-equity construction are continued by the new construction organization.

5. In accordance with part five of this article, the concrete mechanism and procedure for the transfer of objects of uncompleted construction to another construction organization are established by the Cabinet of Ministers. In developing this procedure, the proposals of the relevant authorized state body are taken into account, and the continuation of construction through organizations included in the Electronic Register is ensured on the basis of fairness and transparency.

6. Under this provision, the value of residential objects of uncompleted construction, objects of infrastructure or engineering structures that are subject to transfer to another construction organization is determined by an independent valuer. The valuer is engaged by the liquidation manager at the expense of the funds of the debtor-developer. Thus, the objective determination of the real value of the object is

ensured, and all costs connected with conducting the valuation are placed entirely on the developer itself.

See also: International Commentary, p. 786.

Article 191. Determination of the Losses Caused to Participants in Shared-Equity Construction

In determining the amount of the monetary claim of a shareholder, the amount of damages in the form of actual losses caused by the breach of the developer's obligation to transfer the residential premises is taken into account, in the form of the difference between the value of the residential premises (determined as of the date of the introduction of insolvency procedures with respect to the developer) which should have been transferred to the shareholder and the sum of the funds paid under the construction contract.

The excess of the sum of the funds paid under the contract providing for the transfer of residential premises over the value of the residential premises (determined as of the date of the introduction of the first procedure applied in the case concerning the insolvency of the developer) that was to have been transferred to the participant in shared-equity construction may not be a ground for changing the size of the monetary claims of the participant in shared-equity construction.

Where the participant in shared-equity construction has not discharged in full the obligation to pay the value of the residential premises, the size of the established actual damage is taken into account in proportion to the discharged part of the obligation.

The article being commented upon establishes that the size of the monetary claim of a participant in shared-equity construction is determined on the basis of the difference between the funds paid under the construction contract and the value of the residential premises that the developer was to have transferred, determined as of the date of the institution of the insolvency case. In this connection, even where the sum paid exceeds the value of the object, the size of the claim does not change, and, in cases of the partial discharge of the obligation, the size of the damage is calculated in proportion to the discharged part.

1. This rule clarifies the procedure for calculating the actual material damage arising as a consequence of the violation by the developer of the obligation to transfer residential premises to participants in shared-equity construction within the framework of the construction contract. Where the developer does not discharge its obligations, the damage is determined in the form of the difference between the funds paid by the participant in shared-equity construction and the value of the residential premises that was to have been transferred on the basis of the construction contract. In this connection, the claims of the participant in shared-equity construction are determined taking into account the size of the actual losses by way of comparing the value of the construction object and the funds paid. This mechanism in legislation is

aimed at protecting the rights of participants in shared-equity construction and compensating for their financial losses.

2. Under this provision, the size of the funds paid by a participant in shared-equity construction under a contract providing for the transfer of residential premises, even where it exceeds the value of the residential premises that is to be transferred to the participant in shared-equity construction, may not be a ground for increasing the participant's monetary claims beyond the value determined as of the date of the institution of the case concerning the insolvency of the developer. In this connection, the monetary claim of the participant in shared-equity construction is limited to the actual value of the residential premises, and the sum of the funds paid in excess does not affect the change in the size of the claim in the insolvency case.

3. Under this provision, where a participant in shared-equity construction has not discharged in full the obligation to pay the value of the residential premises, then the actual damage arising as a consequence of the non-discharge by the developer of the obligation to construct and transfer the object is taken into account in proportion to the size of the funds actually paid by the participant. In this connection, the participant in shared-equity construction has the right to claim compensation for the damage only within the limits of the part of the obligation discharged by it, and the size of the damage for the unpaid part is not included in its monetary claims. This rule, along with protecting the interests of the participant in shared-equity construction, is aimed at ensuring a fair correlation of creditors' claims in insolvency cases.

See also: International Commentary, p. 786.

Article 192. Procedure for the Satisfaction of Creditors' Claims in Shared-Equity Construction

Prior to the satisfaction of creditors' claims, the court costs in the case concerning insolvency are reimbursed, and also the claims of citizens to whom the debtor bears responsibility for causing harm to the life or health of citizens.

Creditors' claims are satisfied in the following order:

in the first order—claims for the recovery of alimony, for the payment of remuneration under authors' contracts, and also under payment (enforcement) documents providing for the issue of funds for the payment of wages;

in the second order—claims for compensation for losses caused to shared-equity participants;

in the third order—the claims of other creditors of the developer.

Creditors' claims relating to one order are satisfied in the order of the calendar sequence of the claims asserted.

The claims of each subsequent order are satisfied after the full satisfaction of the claims of the previous order.

The article being commented upon establishes that, in construction on the basis of shared-equity participation, creditors' claims are satisfied in order of priority:

beginning with the court costs and the claims for compensation for harm caused to life or health, then the claims for alimony and remuneration for labor, the claims for compensation for damage caused to shared-equity participants, and after that the claims of other creditors in calendar order and sequentially.

1. In accordance with this provision, within the framework of a case concerning insolvency, prior to the distribution of funds from the debtor's property, the court costs connected with the consideration and conduct of this case are covered in the first place, and also the claims for compensation for harm caused to the life or health of citizens as a result of the actions or inaction of the debtor are satisfied. Only after this is the remaining property directed to the satisfaction of the claims of other creditors in the procedure and order established by legislation.

The legal and social significance of this provision is manifested in the following: a) it is recognized that the life and health of a person are the highest values; b) it is emphasized that a state of insolvency does not release the debtor from personal responsibility; c) priority is given to the principles of humanity in comparison with economic interests; d) by means of covering the court costs, the possibility of the effective and lawful completion of the case is created.

2. This provision establishes a strict order for the satisfaction of creditors' claims in the distribution of the property and funds of the debtor (developer) in insolvency cases and is based on the principles of social justice, humanity and a balance of interests.

In this connection, in the first place, the claims connected with the vitally important interests of citizens are satisfied, namely the claims for the recovery of alimony, the payment of remuneration under authors' contracts, and also the claims under enforcement documents providing for remuneration for labor, the payment of wages, compensations and other payments arising from labor relations. The granting of priority to these claims is aimed at ensuring the social protection of citizens and preventing the situation in which they are left without a source of income.

In the second place, the claims for the recovery of losses caused to shared-equity participants who participated in the construction of a residential object are satisfied. This rule provides for the special protection of the rights of shared-equity participants, taking into account the fact that, as a rule, they directed their own funds to the construction, and the cessation or non-completion of the construction causes them substantial financial and social damage.

In the third place, the claims of all other creditors of the developer that do not relate to the first and second orders are satisfied, that is, banks, financial organizations, contractors, suppliers, and also other legal entities and natural persons. These claims are satisfied at the expense of the remaining property only after the full satisfaction of the claims of a higher order or in the procedure established by legislation.

3. This provision establishes an important procedural rule applied in the satisfaction of creditors' claims in insolvency cases. Under it, where creditors' claims

relate to one and the same order established by legislation, that is, where they have an equal degree of priority from the standpoint of their legal status and the type of claims, the order of their satisfaction is determined by the time of their assertion, namely the date and sequence in which the claims were asserted in the court or in the relevant body.

In this case, as the single criterion for the satisfaction of claims among creditors, the calendar sequence is applied; that is, the claim of a creditor that asserted it earlier is considered to have priority in comparison with the claim of a creditor that asserted it later. Where the debtor's property or funds are insufficient for the full satisfaction of all claims of one order, the funds are directed in the first place to the creditor that asserted its claim earlier, and only after this are the remaining funds used to cover the claims of the creditors following in the calendar sequence.

This rule is aimed at preventing the unjustified granting of advantages to individual creditors, ensuring transparency and certainty in the satisfaction of claims, and also reducing the risk of the arising of disputes and abuses in the insolvency process. At the same time, it stimulates creditors to assert their claims in a timely manner and within the established periods, and also forms a single, stable and predictable procedure in judicial and management practice.

Thus, this provision introduces a fair mechanism, based on the time factor, in the satisfaction of creditors' claims relating to one order, and contributes to ensuring a balance of interests in the institution of insolvency.

4. This provision establishes a strict principle of order in the satisfaction of creditors' claims in the insolvency process and ensures a fair and predictable mechanism for the distribution of property. Under it, in the event of the insufficiency of the debtor's property, the claims of the creditors of each subsequent order may be satisfied only after the full satisfaction of the claims of the previous order. This rule prevents the unjustified granting of advantages to individual creditors and ensures the observance of the principles of priority and fairness enshrined in legislation.

See also: International Commentary, p. 786.

Article 193. Responsibility of the Developer

The founders (participants), the owner and/or the managers of the developer, whose wrongful actions (inaction) led to the insolvency, in the event of the insufficiency of the developer's property, bear subsidiary or joint and several responsibility for the developer's obligations for compensating the damage caused and are deprived of the right to engage in construction activity until the full compensation of the sum of the actual damage.

The article being commented upon establishes that, in construction on the basis of shared-equity participation, in the event of the insufficiency of the developer's property to compensate for the damage, its founders, the owner and the managers bear subsidiary or joint and several responsibility, and also are deprived of the right

to engage in construction activity until the full compensation of the actual damage caused.

Under this provision, where the developer's property is insufficient for the satisfaction of creditors' claims and the compensation of the damage caused, and such a situation arose as a consequence of the unlawful actions or inaction of the developer, the founders, participants, owner and/or managers of the developer are held to subsidiary or joint and several responsibility.

Subsidiary responsibility is the imposition on a person of the duty to compensate the damage at the expense of its own assets in the event of the insufficiency of the property of the principal debtor. In this connection, the damage is compensated in the first place at the expense of the property of the construction company, and only where this property is insufficient may the personal funds of the above-indicated persons be used.

Joint and several responsibility is the responsibility of several persons in which they jointly answer for the full compensation of the damage. In such a case, the creditor has the right to demand the full performance of its claim from any of the jointly and severally responsible persons, and then the joint and several debtors distribute the costs among themselves.

In addition, the indicated persons are deprived of the right to engage in construction activity until the full compensation of the sum of the actual damage caused, which prompts them to compensate the damage without delay.

By means of this rule, the following is ensured: a) in the event of the insufficiency of the developer's property, the interests of creditors are protected; b) the founders and managers are obligated to bear personal financial responsibility; c) effective restrictions are applied for the consequences of financial offenses and fraudulent actions; d) in the insolvency process, a fair and stable mechanism is created.

See also: International Commentary, p. 786.

CHAPTER 14. INSOLVENCY OF NATURAL PERSONS

Article 194. Regulation of Insolvency of a Natural Person

Chapters 1 , 2 , 3 , 5 , 6, and 7 of this Law shall apply to relations related to the insolvency of a natural person, unless otherwise provided by this chapter.

Modern economic relations require the active participation of citizens in debt management. This is primarily due to the expansion of the credit market, the development of microfinance institutions, and the spread of consumer lending and mortgages. From this perspective, the inclusion of natural persons in legislation as independent subjects of insolvency relations is considered an important doctrinal step, based on the principles of social justice and economic realism.

The commented article establishes general rules applicable to regulating relations related to the insolvency of a natural person. According to it, although relations related to the insolvency of a natural person are regulated by a separate chapter, in cases where this chapter does not establish specific rules, the general provisions of Chapters 1, 2, 3, 5, 6, and 7 of the Law also apply.

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47. When considering cases of insolvency of certain categories of legal entities, individual entrepreneur s, **natural persons,** liquidated legal entities and absent debtors, unless otherwise provided by law, **the general rules** of the Law shall apply.

53. In accordance with Article 194 of the Law, the relevant general provisions contained in Chapters 1, 2, 3, 5, 6 and 7 of the Law shall apply to relations related to the insolvency of a natural person, unless otherwise provided by special provisions of Chapter 14, which regulates the insolvency of a natural person.

This rule is intended to ensure that the institution of insolvency of natural persons, while having independent legal regulation, is not separated from the general system of insolvency law. At the same time, the legislator stipulates that, despite the establishment of special rules for natural persons, general principles, concepts, and procedural rules must be maintained.

The specifics of handling such cases, aimed at legally regulating relations related to the insolvency of a natural person, as well as the rules defining their property, legal, and procedural status, are reflected in legislation. Moreover, a natural person's inability to fulfill their monetary obligations and/or mandatory payments within the established timeframe is recognized as a sign of insolvency.

From this perspective, this article serves as a legal balance between general and specific rules. If the issue related to the insolvency of a natural person is not directly regulated by this chapter, then the general part of the Law, as well as the substantive and procedural rules governing the insolvency of legal entities, apply when considering the case.

At the same time, the provisions of this article do not imply a mechanical application of general rules to the insolvency of a natural person, but require their proportionate and appropriate interpretation, taking into account the legal nature of the natural person, his social status and constitutional rights.

Chapter 1 of the Law establishes the general provisions of insolvency legislation, reflecting the sources of legislation in this area, key concepts, and legal categories. In particular, the legal meaning of such terms as "creditor," "restoration of solvency," "concealment of insolvency," and "deliberate causing of insolvency" are clearly defined. When considering an insolvency case involving a natural person, these definitions apply in full, unless otherwise provided in this chapter.

A natural person may also fraudulently declare insolvency, conceal insolvency, or deliberately cause themselves to become insolvent, in which case they are subject to appropriate liability under the law. This approach is aimed at protecting the interests of creditors and preventing unscrupulous debtors from abusing the "second chance" (fresh start) mechanism.

The provisions of Chapter 2 of the Law also apply as a general procedure when considering cases involving natural persons. Specifically, holding a creditors' meeting or establishing a creditors' committee, maintaining a register of creditors' claims, the voting procedure, the notification mechanism, and the rights and obligations of the judicial manager also apply to cases of insolvency of a natural person. At the same time, the non-application of certain provisions to natural persons, in particular the rules of Article 12 on "exclusive powers" established with respect to legal entities, is fully consistent with the principle of "priority of special provisions" stipulated in Article 194. For example, with respect to a natural person, creditors' claims are also included in a special register, and the order of claims, the procedure for their satisfaction, and the principle of calendar priority are applied based on general rules.

The institutional mechanisms provided for in Chapter 3 of the Law—namely, the powers of the Cabinet of Ministers to establish procedures, certify insolvency administrators and maintain a register, establish a unified procedure for the sale of assets, and exercise control over the authorized body—also apply to natural person insolvency cases. This helps ensure the qualifications of insolvency administrators involved in natural person insolvency proceedings, ensure the transparency of asset sales procedures, and ensure state oversight.

Although the procedure for initiating proceedings against a natural person is clearly defined by the specific provisions of this chapter (Articles 195-201), the general procedural rules of Chapter 5 of the Law governing the consideration of

insolvency cases in court—specifically, the requirements for the content of the application, the court's acceptance or return of the application, judicial rulings, and the rights and obligations of parties to the case—also apply to cases involving natural persons. This, on the one hand, ensures uniformity in judicial practice and, on the other, guarantees the availability of sufficient procedural guarantees for natural persons.

The provisions of Chapter 6 of the Law are particularly important in the insolvency process of natural persons. These provisions are aimed at preventing the intentional alienation of property by the debtor, its concealment from creditors, or the unjustified granting of advantages to certain natural persons. In practice, a natural person debtor, finding themselves in dire financial straits, may attempt to evade creditors' claims by gifting property to relatives or selling it at a price significantly below its market value. The provisions of this chapter provide mechanisms for restoring creditors' interests by invalidating such suspicious transactions. If the court invalidates such a transaction, the acquired property is returned to the debtor's estate and subsequently used to satisfy creditors' claims.

According to the provisions of Chapter 7 of the Law, if insolvency occurs due to the fault of the debtor or persons who influenced their financial activities, they are held subsidiarily liable to creditors. In cases of insolvency of a natural person, these provisions may also be applied by analogy if the natural person is a sole proprietor or if other persons exerted decisive influence on their financial decisions. This serves to prevent cases of deliberate evasion of liability through insolvency proceedings. Thus, this legislation means that it covers liability not only for assets but also for the persons responsible for the emergence of such a financial situation.

Overall, Article 194 under commentary is a "transitional rule" in its legal nature. On the one hand, it recognizes that special procedures related to the insolvency of a natural person are established in a separate chapter, while on the other hand, it does not separate this institution from general legal provisions, but rather seamlessly links it to them.

At the same time, the provision of the article "unless otherwise provided by this chapter" establishes the priority of special rules. Specifically, this article and subsequent rules directly regulate the specifics specific to a natural person—the scope of obligations, deadlines, the subject of the application, and restrictions related to re-applications—and in such cases, these special rules apply. Only in cases where special rules do not fully cover a specific issue are the general provisions of Chapters 1, 2, 3, 5, 6, and 7 of the Law directly applied as auxiliary rules.

These provisions serve to ensure legal, stable, systematic, and effective regulation of relations related to the insolvency of natural persons.

Article 195. Signs of Insolvency of a Natural Person

Signs of insolvency of a natural person debtorare the inability to satisfy the demands of creditors for monetary obligations and (or) to fulfill their obligations for taxes and duties in full, if the relevant obligations and (or) obligations for mandatory payments are not fulfilled by the natural person debtorwithin three months from the date of their occurrence, and if the claims against the debtor- natural person amount to at least two hundred times the base calculation amount.

The commented article defines the legal criteria necessary for declaring a natural person insolvent. These provisions stipulate that a natural person's insolvency is determined based on objective criteria, with the assessment of the debtor's financial condition being based not on subjective factors, but on specific indicators established by law. At the same time, this provision defines the "state of insolvency" of a natural person not only as an economic but also as a legal category.

Indeed, through the institution of personal insolvency, based on the concept of the "honest but unfortunate debtor," which has been applied for many years in countries such as the United States, Germany, France, Russia, and several other countries, citizens, stateless persons, and foreign citizens, under certain conditions, are granted the opportunity to be released from their debt obligations. Specifically, if the debtor's actions do not involve fraud, intentional concealment of assets, or other forms of abuse, they are entitled to restore their economic activity and return to normal financial relations based on the principle of "financial recovery" (fresh start).

The rules of this article are also aimed at establishing norms that determine the criteria for legal certainty in establishing the insolvency of natural persons in accordance with this approach.

According to these regulations, a natural person's inability to satisfy creditors' monetary obligations and/or fully fulfill their tax and duty obligations is recognized as the primary indicator of insolvency. Failure to fulfill these obligations within three months from the date they arose serves as a temporary criterion.

At the same time, the legislator, in order to distinguish insolvency from cases of minor debt, also introduces a quantitative criterion. According to this criterion, if the amount of claims against a natural person debtor is at least two hundred times the base calculation amount, this indicates the presence of signs of insolvency.

From a doctrinal perspective, the criteria established in this provision serve as a legal boundary distinguishing insolvency from temporary payment difficulties. The three-month period and minimum amount of claims constitute comprehensive criteria indicating the emergence of persistent insolvency in a natural person's financial situation.

Furthermore, the provisions of this article provide a universal approach to determining a natural person's insolvency and create a legal basis for the application of special procedures provided in subsequent articles. Only if the criteria specified in this article are present may insolvency proceedings be initiated against a natural person.

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53. It should be noted that a case on the insolvency of a natural person, including an individual entrepreneur , may be initiated by the court only if the signs provided for in Articles 195 and 228 of the Law are present.

Thus, this norm has a primary and decisive significance in the legal definition of the insolvency of a natural person and acts as a basic norm aimed at ensuring a balance between the interests of the debtor and creditors.

See also: International Commentary, p. 794.

Article 196. Grounds for Initiating Insolvency Proceedings Against a Natural Person

A natural person debtor, a creditor, as well as a state tax service body and other authorized bodies may apply to the court with a petition to declare a natural person insolvent.

A case of insolvency of a natural person may be initiated by the court if the signs provided for in Article 195 of this Law are present.

When considering a case of insolvency of a natural person, the procedures provided for in part two of Article 30 of this Law shall be applied.

The commented article stipulates that a debtor (a natural person), creditors, and authorized government agencies have the right to apply to the court for a declaration of insolvency against a natural person . Such a case is initiated only if the statutory criteria for insolvency are present, and the prescribed procedures are applied during its consideration.

1. This provision defines the circle of persons entitled to file a petition to declare a natural person insolvent. According to it, the debtor (a natural person), their creditors, as well as state tax authorities and other authorized bodies, have the right to file a petition to declare a natural person insolvent.

Granting this right to a natural person debtor ensures the opportunity to legally resolve their financial situation, openly and legally resolve their debt, and take advantage of the rehabilitation mechanisms provided by the insolvency system. This

facilitates recognition of the natural person in the insolvency process not as a passive object, but as an independent subject of the law.

Granting creditors the right to appeal to court is aimed at protecting their legitimate claims, conducting a legal assessment of the debtor's financial condition, and initiating a general debt collection process. This is an important procedural guarantee for the effective protection of creditors' interests.

Granting this authority to state tax authorities and other authorized bodies is intended to ensure that natural persons fulfill their obligations to the state regarding taxes and mandatory payments, as well as to protect public interests. Other authorized bodies include state tax and customs authorities, financial authorities, and other authorized bodies overseeing the collection of taxes and duties for the state budget and state target funds. The participation of these bodies reflects the state's exercise of control functions aimed at ensuring financial discipline in insolvency cases.

Thus, a broad and clear definition of the circle of persons entitled to file an application serves to ensure a balance between private and public interests when initiating insolvency proceedings against a natural person, and also contributes to the effective and fair application of this institution.

2. This provision establishes the fundamental substantive legal condition for initiating insolvency proceedings against a natural person. According to it, the court may initiate insolvency proceedings against a natural person only if the criteria specified in this provision are present.

The specified established criteria—the inability of the natural person debtor to fulfill their monetary obligations and/or taxes and duties, the existence of a delay in fulfilling the obligations for at least three months from the date of their inception, and the existence of a total debt of at least 200 times the base calculation amount or more—must be present simultaneously. Only when all of these conditions are met is the initiation of a case by the court considered legally justified. This mechanism ensures that the institution of insolvency is applied only in truly justified cases and prevents the initiation of unnecessary or unjustified cases.

If the insolvency criteria stipulated by this provision are absent, the court will not accept the natural person's insolvency petition for proceedings, pursuant to part five of Article 46 of the Law. If the petition is accepted, then, in accordance with Article 55 of the Law, the court will issue a decision denying the debtor's insolvency.

Overall, this provision serves as the primary substantive criterion for establishing a natural person's insolvency in court. The presence of the criteria established by this provision provides the court with a legal basis for assessing the debtor's actual financial condition and conducting insolvency proceedings on a legal basis. This is aimed at ensuring a fair balance between the opposing parties—the debtor and creditors—applying this principle only in objectively justified cases, and ensuring the stability of the procedures established by law.

3. Part three of this article defines the procedures applied during the insolvency proceedings of a natural person. Two procedures are applied during the insolvency proceedings of a natural person: first, debt restructuring and second, bankruptcy recognition and asset sale.

These procedures serve to initiate standard judicial proceedings against a natural person in accordance with the established procedure. Specifically, the acceptance of an application, its return or refusal, notification of the parties, enforcement actions by the court, and other procedural actions are carried out in accordance with the procedures specified in Article 30 of the Law.

On the one hand, this ensures guarantees of legal stability and fairness in the consideration of cases, and on the other hand, it promotes the proper provision of the rights and obligations of natural persons, creditors and government agencies in accordance with the established procedure.

See also: International Commentary, p. 794

Article 197. Application for Recognition of Insolvency of a Natural Person Debtor

In the cases provided for in paragraph two of part one of Article 9 of this Law, if the total amount of all obligations of a natural person is not less than two hundred times the base calculation amount, the natural person must, no later than thirty days from the date of occurrence of such a circumstance, apply to the court with an application to initiate insolvency proceedings against himself.

An application for recognition of a natural person as insolvent may be filed with the court if there are signs of insolvency provided for in Article 195 of this Law.

The article under commentary establishes the procedure for a debtor—a natural person—to apply to the court with a statement of insolvency.

1. According to this rule, if the total amount of a natural person's liabilities is no less than two hundred times the base calculation amount, the debtor is obliged to apply to the court with a statement of insolvency no later than thirty days from the date of the occurrence of such a situation.

In this case, the circumstance stipulated by Article 9 of the Law must take place, that is, the financial situation of the debtor must be such that the satisfaction of the claims of one or more creditors makes it impossible to fully fulfill obligations to other creditors.

Furthermore, the substantive conditions are considered fulfilled if the total amount of all monetary obligations of a natural person and/or their tax and duty liabilities equals or exceeds two hundred times the base calculation amount. This serves as the legal basis for assessing the debtor's actual financial situation and initiating proceedings.

From the moment such a situation arises, a natural person must file a claim with the court no later than thirty days later. This period is intended to ensure the debtor's legal settlement of their financial situation and the effective use of the insolvency system.

Thus, this norm defines the deadline for filing an application, substantive conditions and procedural guarantees, and also ensures the legal, stable and open use of the insolvency institution by a natural person.

2. An application for recognition of a natural person as insolvent may be filed with the court only if there are signs of insolvency provided for in Article 195 of the Law.

When deciding whether to accept an application for the initiation of insolvency proceedings against a debtor, the judge is obliged to verify the existence of grounds for filing such an application with the court, as provided for in part one of Article 37 of the Law.

In the absence of such grounds—that is, in the absence of signs of insolvency and documents confirming their presence—the judge, pursuant to part five of Article 46 of the Law, refuses to accept the petition for insolvency proceedings. If this circumstance is established after the insolvency proceedings have been initiated, the court will issue a decision denying the debtor's insolvency.

This provision has substantive and procedural significance, as it ensures the validity of the application and guarantees that insolvency proceedings are initiated legally. This ensures that the debtor's actual financial situation is assessed and creates the possibility of using the insolvency procedure only in cases of actual inability to fulfill obligations.

Article 198. Documents Attached to the Application of a Natural Person Debtor

In addition to the documents provided for in Article 40 of this Law, the following documents shall be attached to the application for declaring a debtor–natural person insolvent:

information confirming the presence or loss of the status of an individual entrepreneur (if engaged in such activities);

a list of the property of a natural person (indicating the price) that the debtor is prepared to provide to satisfy the claims of creditors, the location or storage of the property indicating the name or first name, last name and patronymic of the owner of the property that is the subject of the pledge;

copies of documents (if any) confirming the right of a natural person to own property and the exclusive rights of a natural person to the results of intellectual activity;

copies of real estate documents, securities, shares in the authorized capital of a legal entity, vehicles, as well as transactions concluded by a natural person in the period three years prior to the date of filing the application;

an extract from the register of shareholders (participants) of a legal entity in which a natural person is a shareholder (participant) (if any);

information on the income received by a natural person, on taxes and duties accrued and paid during the period of three years prior to the date of filing an application for recognition of a natural person as insolvent;

a certificate issued by a commercial bank on accounts in commercial banks and cash balances on them, savings (deposits), as well as information on transactions, savings (deposits) in the accounts of a natural person, including an individual entrepreneur , for a period of three years prior to the date of filing an application for declaring a natural person insolvent (if any);

information on the status of the insured person's personal account (if any);

a copy of the decision of the territorial department of employment and labor relations on recognizing a natural person as unemployed (if any);

a copy of the marriage certificate (if concluded on the date of filing the application or the divorce is not registered) and (or) a divorce certificate (if it was issued earlier within three years prior to filing the application), as well as a copy of the marriage contract (if any);

a copy of the agreement or court document on the common property of the spouses, concluded and accepted within three years prior to the date of filing the application, respectively (if any).

A natural person may indicate a candidate for a financial manager in his/her application.

The article in question details the list of documents a natural person must submit with their insolvency petition. Its primary purpose is to enable the court to determine the debtor's actual legal, financial, family, and property status, as well as to evaluate their transactions and obligations.

1. Part one of this article not only establishes the list of documents required for accepting an application for proceedings, but also ensures the possibility of identifying the debtor's financial transactions, the likelihood of concealment of property, and determining his actual solvency.

Article 40 of the Law provides a list of documents required of all debtors (legal entities, sole proprietors, and natural persons). This article also contains a list of additional documents that must be submitted exclusively by natural persons. If a natural person files an insolvency petition, they are required to submit both the general documents stipulated by Article 40 of the Law and the specific documents stipulated by this article.

An application by a natural person debtorinitiate insolvency proceedings must be accompanied by the documents stipulated by this article of the Law and Article 151 of the EPC. If these documents are not submitted, the application and its attached materials will be returned in accordance with Article 155 of the EPC and part six of Article 46 of the Law.

In practice, the importance of the documents specified in part one of this article is explained by the court's need to reliably establish whether the debtor has concealed

their assets, whether they have engaged in questionable banking transactions, and whether their financial resources are truly insufficient to fulfill their obligations. Furthermore, the documents attached to the application are used to verify the absence of instances of evasion of obligations through marriage, various "transactions," deposits, or other methods of asset concealment.

In this sense, the natural person debtor provides a complete picture of their financial situation, a kind of financial "x-ray," which allows the court to correctly, openly, and fairly consider the case within the insolvency proceedings.

2. Part two of this article establishes that when filing a petition for insolvency, a natural person has the right to nominate a financial manager in their petition. This provision is aimed at protecting the personal rights and property interests of the debtor, as well as ensuring procedural and substantive guarantees in insolvency proceedings.

By nominating a financial manager themselves, a natural person reduces the risk of delays and uncertainty associated with the court's appointment of a manager. This provides the debtor with additional legal and financial guarantees during the insolvency proceedings.

The court verifies the qualifications, impartiality, and ability of the candidate nominated by the debtor to perform the duties of the financial manager, after which it decides on their approval and issues a ruling. However, the court has the right to disagree with the debtor's proposed candidate and deny their approval.

The importance of this mechanism lies in ensuring that the interests of both the debtor and creditors are protected during insolvency proceedings, as well as the proper and fair distribution of assets. If the court rejects the proposed candidate, the appointment of a financial manager again or the selection of another authorized person is carried out in accordance with the law and procedural rules.

See also: International Commentary, p. 794.

Article 199. Application by a Creditor, the State Tax Service or Other Authorized Body for Recognition of a Natural Person as Insolvent

An application for insolvency of a natural person may be filed by a creditor, the state tax service or another authorized body in the presence of a court decision that has entered into legal force confirming the claims of creditors for monetary obligations and obligations for taxes and duties, with the exception of the rules of part two of this article.

In the absence of a court decision specified in the first part of this article, an application for recognition of a natural person as insolvent may be filed by a creditor based on the following requirements:

claims based on notarized transactions;

demands certified by a notary's writ of execution;

claims based on documents submitted by the creditor regarding monetary obligations recognized but not fulfilled by a natural person;

claims for the collection of alimony for minor children who do not need to establish paternity, renounce paternity (maternity), or involve other interested parties.

An application for recognition of a natural person as insolvent, together with the documents specified in Articles 41-43 of this Law, shall be accompanied by information confirming the presence or loss of the status of an individual entrepreneur (if engaged in such activity).

The commented article establishes that, for a creditor, state tax authority, or other authorized body to file a petition to declare a natural person insolvent, a final and binding court decision is generally required. In certain cases, such a petition may be filed without a court decision, based on certain documents. It also stipulates that the petition must be accompanied by the documents required by law.

1. Part one of this article defines the legal grounds for a creditor, state tax authority, or other authorized body to file a petition with the court to declare a natural person insolvent. According to this provision, the petition may be filed only if the creditors' claims for monetary obligations, as well as claims for taxes and duties, are generally confirmed by a court decision that has entered into legal force.

A creditor's application to initiate insolvency proceedings against a natural person debtor is submitted to the court in writing or electronically. A creditor has the right to file an application to initiate insolvency proceedings against a natural person debtor based on the aggregate debt incurred under various obligations. Creditors also have the right to consolidate their claims and file a single joint application with the economic court; such an application is signed by all consolidated creditors. The list of common documents attached to a creditor's application to initiate insolvency proceedings against a natural person debtor is established by Article 43 of the Law.

An application from a state tax authority or other authorized body to initiate insolvency proceedings against a natural person debtor for tax and duty arrears must comply with the requirements set forth in Articles 41 and 43 of the Law. If the application from a state tax authority or other authorized body to initiate insolvency proceedings is not accompanied by evidence of the measures taken to collect the outstanding tax and duty arrears in accordance with the established procedure, the application will be returned by a court ruling. If, however, the application was accepted for proceedings due to a judicial error, the court will dismiss the application for insolvency proceedings without consideration (based on paragraph 5 of Article 107 of the EPC).

However, the provision contains the caveat: "with the exception of the rules of part two of this Article," meaning that the possibility of filing an application remains in certain special cases provided for by law, even in the absence of a final court decision. These exceptions are established to ensure the effective functioning of the insolvency system and to eliminate potential legal gaps.

In general, this norm is aimed at ensuring procedural discipline when initiating insolvency proceedings against a natural person, protecting the interests of creditors

and the state, and ensuring that insolvency proceedings are carried out lawfully and on sufficient legal grounds.

These provisions are intended to prevent the initiation of insolvency proceedings based on unfounded or disputed claims, and to ensure the protection of the rights and legitimate interests of natural persons. The existence of a court decision serves as preliminary confirmation of the validity of the creditor's or authorized body's claims, their amount, and legal basis, and also serves as a sufficient procedural guarantee for initiating insolvency proceedings.

2. This provision establishes exceptions to the general rule requiring a court decision to initiate insolvency proceedings against a natural person. According to it, even if there is no court decision that has entered into legal force confirming the creditor's claims, as provided for in part one of the Article, in certain cases the creditor has the right to appeal directly to the court.

Such exceptions apply only to obligations characterized by indisputable and definite nature of the claims. Specifically, claims based on notarized transactions or confirmed by a notary's writ of execution are recognized by law as documents subject to mandatory execution. Furthermore, documents confirming monetary obligations acknowledged by a natural person but not fulfilled by them also clearly indicate the existence of a debt.

Furthermore, this provision specifically emphasizes that this category also includes claims for child support payments for minor children. Moreover, a mandatory condition is the absence of the need to establish or contest paternity, or to involve other interested parties, which is aimed at ensuring the undisputed nature of the child support obligation.

3. The provisions of part three of this article are aimed at determining the list of documents that must be attached to the application of a creditor, a state tax authority or other authorized body for recognizing a natural person as insolvent.

According to this norm, such an application, along with the general documents stipulated by Articles 41-43 of this Law, must be accompanied by information confirming the natural person's status as an individual entrepreneur or the loss of such status if he previously carried out activities as an individual entrepreneur.

This requirement is essential for the correct legal qualification of relations related to the insolvency of a natural person, establishing the presence or absence of obligations related to entrepreneurial activity, and determining special rules to be applied in the context of insolvency proceedings.

See also: International Commentary, p. 795.

Article 200. Features of Initiation and Consideration of a Case on Recognizing a Natural Person as Insolvent

No later than five days from the date of receipt of the application for recognition of the natural person debtoras insolvent, the judge issues a ruling on accepting the application and initiating insolvency proceedings or on refusing to accept or returning the application.

In its ruling initiating insolvency proceedings against a natural person, the court obligates the natural person debtorto submit a written opinion to the court within fifteen days of receiving the court ruling, along with the documents specified in Article 198 of this Law. This rule does not apply if the insolvency petition is filed by the debtor (a natural person).

Following the consideration of a case on recognizing a natural person as insolvent, the court shall adopt one of the following judicial acts:

determination on the introduction of a procedure for restructuring the debt of a natural person;

a decision to declare a natural person bankrupt and to initiate the procedure for selling the natural person's property;

decision to refuse to satisfy the application.

Unless proven otherwise, a natural person is considered insolvent if at least one of the following circumstances exists:

in case of non-fulfillment of more than ten percent of the total amount of monetary obligations and (or) duties to pay taxes and duties for more than one month from the date on which such obligations must be fulfilled;

the amount of a natural person's debt exceeds the value of his property;

if there is a decision to terminate enforcement proceedings due to the natural person's lack of property.

If there is information about the opening of an inheritance in relation to a natural person, the court has the right to suspend proceedings on the insolvency case of a natural person until the issue of the fate of the inheritance is resolved.

The commented article defines the issues of accepting an application for recognizing a natural person as insolvent, the procedure for initiating a case, its consideration in a court hearing, and also the adoption of a decision based on the results of the consideration.

1. This provision establishes the initial procedural stage of the court's consideration of an application for declaring a natural person debtor insolvent, as well as the timeframes for its completion. According to it, no later than five days from the date of receipt of the application by the court, the judge must issue a ruling accepting the application and initiating insolvency proceedings, or denying the application, or returning the application.

The preparation of an insolvency case for trial shall be carried out by a judge in the manner prescribed by Chapter 19 of the EPC, taking into account the specifics established by Article 49 of this Law.

When deciding whether to accept an insolvency petition against a debtor, the judge must verify the existence of grounds for filing such a petition, as stipulated by part one of Article 37 of the Law. If the grounds stipulated by Article 195 of the Law are absent, the judge must refuse to accept the petition for declaring the natural person insolvent, pursuant to part five of Article 46 of the Law.

If the above circumstances are discovered after the insolvency proceedings have been initiated, the court will issue a decision to refuse to declare the debtor insolvent.

These provisions are aimed at ensuring the speed and efficiency of the judicial process and preventing artificial delays in the consideration of matters related to a natural person's financial situation. At the same time, the established time limit allows the judge to conduct a preliminary assessment of the application's compliance with legal requirements, the availability of all necessary attached documents, and the substantive and procedural grounds for initiating the case.

2. The provisions of part two of this article determine the procedural obligations of the debtor after the initiation of insolvency proceedings against a natural person.

According to this provision, if a case is initiated not at the initiative of the natural person debtor, but at the request of a creditor or authorized body, the court imposes additional procedural obligations on the debtor in its ruling initiating the case. Specifically, the court requires the natural person debtor to submit a written response to the court within fifteen days of receiving the court's ruling. This written response must be accompanied by the documents specified in Article 198 of the Law, i.e., documents reflecting the debtor's financial situation, assets, income, bank accounts, transactions, and other material circumstances.

This requirement allows the court to comprehensively and objectively assess the actual financial situation of a natural person debtor, determine the presence or absence of signs of insolvency, and promptly obtain the information necessary to protect the interests of creditors. At the same time, this provision is aimed at ensuring the active participation of the debtor in the court proceedings.

However, if a natural person's insolvency petition is filed directly by the debtor, this rule does not apply. In such a case, the debtor is deemed to have already submitted the documents required by Article 198 of the Law upon filing the petition, and no additional written response is required.

Thus, this norm is aimed at ensuring procedural discipline at the stage of initiating a case, as well as the timely and effective consideration of insolvency cases by providing the court with complete and reliable information.

3. This provision defines the types of judicial decisions that may be made by the court following the consideration of a natural person's insolvency case. According to it, the court, having comprehensively, completely, and objectively assessed all evidence and materials presented in the case, makes one of three types of procedural decisions.

Firstly, if the court concludes that it is possible to restore a natural person's financial situation, it issues a ruling to initiate debt restructuring procedures. This

ruling is aimed at gradually restoring the debtor's solvency, taking into account their sources of income, financial situation, and social status.

Secondly, if the court determines that it is impossible to restore the natural person debtor's solvency, it will declare the natural person bankrupt and initiate the sale of their assets. In this case, the debtor's assets are sold in accordance with the established procedure, and the proceeds are used to satisfy creditors' claims.

Thirdly, if the court finds that there are no signs of insolvency or that the grounds provided by law for satisfying the application are insufficient, it will decide to deny the application.

A complaint or protest may be filed against the said judicial acts in accordance with procedural legislation.

This provision guarantees the possibility of reviewing judicial decisions rendered by the court and grants participants in the proceedings the right to appeal them through appellate or cassation proceedings, as well as the right of the prosecutor to lodge a protest in cases provided for by law. This mechanism ensures oversight of judicial decisions and serves as a means of eliminating potential legal errors or procedural violations, guaranteeing the procedural rights of the parties to the case.

Thus, the norm establishes a legal mechanism that allows the court, based on the actual financial situation of a natural person, to make fair, proportionate and appropriate judicial decisions.

4. Part four of this article establishes a statutory presumption applicable to determining a natural person's insolvency. According to this presumption, unless proven otherwise, a natural person is considered insolvent if at least one of the circumstances listed in the law exists.

Firstly, if more than ten percent of the total amount of monetary obligations of a natural person and (or) obligations to pay taxes and duties are not fulfilled for more than one month from the date of their fulfillment, this indicates a violation of payment discipline of the natural person and the limited ability of the natural person to fulfill current obligations.

Secondly, if the amount of a natural person's debt exceeds the total value of his property, that is, his liabilities exceed his assets, such a financial imbalance is considered a significant sign of insolvency.

Thirdly, the existence of a decree terminating enforcement proceedings due to the natural person's lack of assets subject to foreclosure also confirms their insolvency. This circumstance signifies the virtual impossibility of enforcing the debtor's obligations.

At the same time, the provision contains the clause "unless proven otherwise," which allows a natural person or other interested parties to prove the absence of insolvency even in the presence of the aforementioned circumstances. This allows the court to make individual and impartial assessment of all the circumstances of the case during its consideration.

5. This provision is aimed at taking into account relations related to inheritance law during insolvency proceedings against a natural person. According to it, if there is evidence of an inheritance being in respect of a natural person, the court has the right to suspend the insolvency proceedings until the fate of the inheritance is resolved.

This rule is driven by the need to accurately and completely determine a natural person's financial status. The opening of an inheritance may change the debtor's assets, increase their assets, or create the possibility of repaying debts. Therefore, making a final determination of a natural person's insolvency before establishing the fact of acceptance or rejection of the inheritance, as well as the composition and value of the inherited assets, may be unfounded.

The provisions of this rule do not impose an obligation on the court, but rather grant it discretion. The court decides whether to suspend proceedings based on the specific circumstances of the case, the significance of the legal relationships related to the inheritance, and their impact on the outcome of the case.

On this issue, the court issues a ruling to suspend the consideration of the insolvency case until the issue of the fate of the inheritance is resolved, and an interested party who does not agree with such a ruling has the right to appeal it in accordance with the established procedural procedure.

Thus, this norm serves to ensure an objective assessment of the actual financial situation of a natural person, maintaining a balance of interests between creditors and the debtor, and preventing the unjustified recognition of a person as insolvent .

Article 201. Satisfaction of the Application by the Court and the Introduction of the Procedure for Restructuring the Debt of a Natural Person

A court ruling to satisfy an application for declaring a natural person insolvent and introducing a procedure for restructuring his debt shall be issued if such an application is filed on the grounds provided for in Article 196 of this Law, if signs of insolvency of a natural person are proven and at least one of the circumstances provided for in Article 200 of this Law has occurred.

The financial manager is appointed by the court from among candidates proposed by a natural person or creditors or an authorized state body or a public association of judicial managers.

The commented article establishes the legal grounds for introducing the debt restructuring procedure, as well as the procedure for appointing a financial manager based on the results of the court's consideration of the case of insolvency of a natural person.

1. According to the first part of this article, in order for the court to issue a ruling on satisfying an application for recognizing a natural person as insolvent and introducing the specified procedure, a number of conditions must be simultaneously met.

Firstly, an application for declaring a natural person insolvent must be filed on the grounds stipulated by Article 196 of this Law. The legality of the application and compliance with procedural requirements are verified.

Secondly, evidence of a natural person's insolvency must be proven. To do this, the court assesses the debtor's financial situation and determines whether there is evidence confirming their inability to meet their financial obligations and/or tax and duty payments.

Thirdly, at least one of the circumstances stipulated in Article 200 of the Law must be present. These circumstances serve as additional criteria legally confirming the natural person's insolvency.

Thus, these provisions provide for the possibility of applying a debt restructuring procedure aimed at restoring the financial position of a natural person before declaring him bankrupt, and serve to ensure a balance of interests between the natural person and creditors.

2. This provision establishes the procedure for appointing a financial manager. According to it, the financial manager is appointed by the court from among candidates nominated by the debtor (a natural person), creditors, an authorized government agency, or a public association of court managers.

The court appoints a financial manager independently based on legislation and the list of nominated candidates. This procedure is established to ensure the fair and effective conduct of the financial management procedure, as well as to protect the interests of the debtor and creditors. The powers and duties of the financial manager are exercised in accordance with the procedure established by law.

See also: International Commentary, p. 795.

Article 202. Refusal to Satisfy an Application for Recognition of a Natural Person as Insolvent

A court decision to refuse to satisfy an application for recognition of a natural person as insolvent is made if one of the following conditions is met:

there is another case regarding recognition of insolvency of a natural person;

there are no signs of insolvency of a natural person;

there are no grounds provided for in part four of Article 200 of this Law;

the claims specified in the application of the creditor or the relevant authorized body on the date of filing the insolvency application are not confirmed by a court decision that has entered into legal force and there is a dispute between the creditor or the relevant authorized body and the natural person regarding the right, which is subject to resolution by way of a claim.

The commented article establishes the grounds for the court to refuse to satisfy an application to declare a natural person insolvent.

Each of the grounds provided for in this article is directly related to the purpose of insolvency law—the legal protection of a natural person debtor while simultaneously ensuring the rights of creditors. This provision defines the grounds for denying a natural person's insolvency petition strictly and exhaustively. According to it, the court will deny a natural person's insolvency petition in the following cases.

Firstly, if the court is already considering another insolvency case against the natural person, as the law prohibits the simultaneous conduct of multiple insolvency proceedings against the same natural person. In international practice, this principle is known as the "single insolvency proceeding."

Secondly, if there are no signs of insolvency of a natural person, that is, if the signs provided for in Article 195 of the Law are not established (or the applicant has not proven them with appropriate evidence), the court cannot come to a conclusion about the existence of insolvency and refuses to satisfy the application.

Thirdly, if none of the three signs provided for in Part Four of Article 200 of the Law is proven, the court comes to the conclusion that it is necessary to refuse to satisfy the application.

Fourthly, if the claims stated in the creditor's or the relevant authorized body's application are not confirmed by a final court decision as of the date of filing the application, and there is a legal dispute between the debtor and the creditor or authorized body, the court will deny the application. This is because insolvency proceedings are essentially a mechanism for fulfilling obligations, not a procedure for resolving legal disputes. Therefore, legal disputes between the debtor and the creditor or authorized body must first be resolved through litigation.

The specified provisions serve as the legal basis for the court's refusal to satisfy the application and ensure the legal protection of the legal status of the debtor, the claims of creditors, as well as the applications of the relevant authorized bodies.

See also: International Commentary, p. 795.

Article 203. Claims of a Natural Person Secured by Collateral

Foreclosure on mortgaged property is not permitted until a court decision is made approving a debt restructuring plan for a natural person or a decision is made to declare a natural person bankrupt and begin the process of selling his or her property.

After the court approves the debt restructuring plan of a natural person, a creditor who did not vote for this plan for obligations secured by a pledge of the natural person's property has the right to apply to the court with a petition for foreclosure on the pledged property of the natural person, and this petition may be granted by the court unless it is proven that foreclosure on the said property prevents the implementation of the debt restructuring plan of the natural person.

The terms for repaying creditors' claims secured by a natural person's property must be specified in the natural person's debt restructuring plan. These terms are approved by the secured creditors.

The commented article establishes the procedure for satisfying the claims of creditors for the obligations of a natural person secured by a pledge, the conditions for foreclosure on the pledged property, as well as the need to reflect such claims in the natural person's debt restructuring plan and their approval by secured creditors.

1. According to this rule, until the court issues a ruling approving a plan for restructuring the debt of a natural person or a decision to declare a natural person bankrupt and introduce the procedure for the sale of his property, foreclosure on the mortgaged property is not permitted.

In insolvency proceedings involving natural persons, secured creditors, unlike ordinary creditors, enjoy the protection of special rules. However, their rights are also limited and subject to a specific procedural order.

This procedure was established to ensure the fair use of the debtor's assets and protect the rights of secured creditors. Furthermore, the collateral is protected from foreclosure, and foreclosure on such assets is prohibited until the restructuring plan is approved or the natural person is declared bankrupt. The purpose of this regulation is to ensure the fair and lawful use of the debtor's assets during insolvency proceedings and to protect the rights of secured creditors.

2. The norm contained in the second part of this article establishes a legal mechanism for regulating the rights of secured creditors after the approval of a natural person's debt restructuring plan.

According to the law, after the court approves a natural person's debt restructuring plan, creditors with obligations secured by the natural person's property who did not vote in favor of the plan have the right to file a petition with the court. The court may grant such a petition unless it is proven that foreclosure on the collateral will impede the implementation of the debtor's debt restructuring plan.

This rule serves two main purposes. *First,* it protects the rights of secured creditors by allowing them to satisfy their claims against the collateral in accordance with the legally established procedure. *Second,* it facilitates the fair and unimpeded distribution of assets during the execution of the debtor's debt restructuring plan.

If a creditor files a corresponding petition with the court, the court is obligated to verify the existence of claims secured by collateral and to establish that foreclosure on the collateral will not disrupt or derail the restructuring plan. Thus, this provision, while allowing creditors to defend their claims secured by collateral, simultaneously guarantees the execution of the debtor's debt restructuring plan.

3. This rule establishes that the conditions for satisfying claims secured by a pledge of a natural person's property must be specified in the debt restructuring plan and approved by the secured creditors.

According to this law, if the restructuring plan defines specific terms for satisfying the claims of secured creditors, then the foreclosure process ensures the smooth distribution of assets and the debtor's compliance with the approved plan. At the same time, the rights of creditors are protected, and the legal satisfaction of claims secured by collateral is guaranteed during insolvency proceedings.

See also: International Commentary, p. 795.

Article 204. Exclusive Powers of the Meeting of Creditors in the Case of Insolvency of a Natural Person

The exclusive competence of the meeting of creditors includes the adoption of:

decisions on the election of members of the creditors' committee, determination of the number of members of the committee and early termination of the powers of members;

decisions on approval or refusal to approve a debt restructuring plan for a natural person;

decisions on approval or refusal to approve changes made to a natural person's debt restructuring plan;

decisions on filing a petition with the court to cancel the debt restructuring plan of a natural person, except in cases provided for by this Law;

decisions on filing a petition with the court to declare a natural person bankrupt and to initiate the procedure for selling his property, with the exception of cases provided for by this Law;

decisions on concluding a settlement agreement.

The commented article establishes the legal order concerning the exclusive powers and legal status of the meeting of creditors in the insolvency proceedings of a natural person.

According to this rule, the creditors' meeting is the decision-making body throughout the insolvency proceedings, and its decisions can directly influence the court, the financial manager, and the debtor. This rule ensures a democratic approach and economic balance in the insolvency process.

The creditors' committee is the primary operational and managerial body of the creditors' meeting. The regulation establishes that the creditors' meeting's exclusive powers include electing committee members, determining the number of committee members, and deciding on the early termination of its members' powers. The legal significance of this is that the committee reviews the financial manager's reports, monitors expenditures, and takes legal action in the event of violations of the law.

One of the most important powers of the creditors' meeting is the approval or rejection of a natural person's debt restructuring plan. The plan defines the debtor's financial activities, sources of income, payment procedures, and asset status. If creditors approve the plan, the court typically approves it. However, if approval is denied, the natural person's debt restructuring mechanism is not applied, and in most cases, the process proceeds to declaring the natural person bankrupt and realizing their assets. A natural person's debt restructuring plan is subject to constant change. Changes in the debtor's financial situation or the composition of creditors necessitate amendments to the plan. Such amendments become legally binding only after they are approved by creditors.

If the creditors' meeting determines that the debtor is failing to comply with the plan, it has the right to petition the court to cancel the plan. The court may cancel the plan and move the proceedings to the stage of declaring the natural person bankrupt and initiating the sale of their assets.

If creditors believe that a natural person's debt restructuring plan is unfeasible and the debtor's assets are insufficient, they may decide to file a bankruptcy petition and initiate the sale of the natural person's assets. This is one of the most important strategic powers of the creditors' meeting.

A settlement agreement is a mechanism for the peaceful resolution of financial disputes between a debtor and creditors. It may include terms such as partial debt forgiveness, extension of payment terms, interest reduction, or changes to the payment procedure. Such an agreement becomes legally binding only after approval by a creditors' meeting.

In general, the creditors' meeting becomes the primary management and control body during insolvency proceedings. Strategic issues such as the natural person's debt restructuring plan, the transition or non-transition to bankruptcy proceedings and the sale of assets, the sale of assets, and the conclusion of a settlement agreement are decided exclusively through the creditors' meeting. This provision is aimed at protecting creditors' rights and ensuring the fair and legal conduct of the proceedings.

See also: International Commentary, p. 795.

Article 205. Consequences of the Introduction of the Procedure for Restructuring the Debt of a Natural Person

From the date of the court's decision to satisfy the application for declaring a natural person insolvent and introducing the procedure for restructuring the natural person's debt:

a moratorium is introduced on the satisfaction of creditors' claims for monetary obligations and tax and duty arrears;

monetary obligations of creditors, demands for payment of taxes and duties (except for current payments), as well as demands for recognition of ownership rights, for the recovery of property from someone else's illegal possession and for the recognition of transactions as invalid, as well as for the application of the consequences of the invalidity of voidable transactions may be presented only in the manner established by this Law;

previously established restrictions in relation to the property of a natural person on which a ban has been imposed are lifted; the imposition of a ban on the property of a natural person and other restrictions in relation to his property may be applied only within the framework of the insolvency case of a natural person;

The execution of writs of execution shall be suspended, in particular writs of execution on foreclosure on the property of a natural person, with the exception of writs of execution on compensation for harm caused to the life or health of citizens, on the recovery of property from someone else's illegal possession, on the lifting of prohibitions on the ownership of said property, on

the recognition of the right of ownership of said property, on the collection of alimony, as well as on the collection of mortgaged property.

At the request of a creditor or financial manager, the court has the right to take measures to ensure the claims of creditors and the interests of a natural person in accordance with the Economic Procedural Code of the Republic of Uzbekistan, including imposing a ban on the disposal of part of the property of a natural person, including a ban on holding an online auction for the sale of the property of a natural person.

The introduction of a natural person's debt restructuring procedure constitutes grounds for unilateral termination of an agreement that stipulates the natural person's fulfillment of the creditor's claim in monetary form. Unilateral termination of such agreements may be declared during the process of establishing the creditor's claims against the natural person.

If a credit institution carries out transactions on bank accounts and deposits of natural persons, including on bank card accounts, in violation of the rules established by this article, the credit institution shall be liable in the manner prescribed by law if it was notified or knew about the introduction of debt restructuring of a natural person.

The commented article establishes that, from the moment the procedure for restructuring a natural person's debt is introduced, a moratorium on satisfying creditors' claims is introduced, enforcement actions and restrictions related to property are carried out in a special manner, the possibility of unilateral termination of natural person agreements is provided for, and the liability of credit institutions that violate these rules is also established.

1. This norm defines the main legal consequences arising from the moment of the introduction of the procedure for restructuring the debt of a natural person, and through these consequences establishes a special regime for proceedings in insolvency cases.

Firstly, a moratorium is envisaged. This rule temporarily suspends the enforcement of creditors' claims for monetary obligations, taxes and duties. The moratorium is aimed at preserving the debtor's financial position, preventing the fragmentation of its assets to benefit individual creditors, and creating the necessary conditions for the subsequent development of a debt restructuring plan.

Secondly, a uniform procedure for filing creditors' claims is established. Monetary claims against the debtor, claims for taxes and duties, as well as claims for recognition of ownership, recovery of property from unlawful possession, or invalidation of transactions may be filed only in accordance with the procedure established by this Law. This provision is aimed at centralizing insolvency proceedings, eliminating parallel claims, and preventing circumvention of established procedures through separate judicial or enforcement proceedings.

Thirdly, it has been established that previously imposed bans and restrictions on a natural person's property are subject to lifting, and new restrictions may only be applied within the framework of insolvency proceedings. This consolidates control

over property within a single procedural framework—the court and the financial manager—ensuring the security of the property and its transparent management.

Fourthly, a rule on the suspension of enforcement orders has been established. At the same time, the law establishes exceptions for priority and socially significant claims, such as compensation for damage to life or health, alimony collection, and foreclosure on mortgaged property. This demonstrates that the principles of social justice and the protection of vulnerable interests are preserved within the institution of natural person insolvency.

In general, the provisions of this rule establish the legal regime that arises after the introduction of the procedure for restructuring the debt of a natural person and are aimed at protecting the debtor from unreasonable pressure, considering the claims of creditors in an orderly and equal manner, and ensuring the effectiveness of the proceedings.

2. This rule defines the powers of the court to apply interim measures in the context of proceedings on the insolvency of a natural person and discloses their procedural and legal significance.

First of all, it is stipulated that the court shall apply such measures based on a petition from a creditor or financial manager, and these interim measures are applied in accordance with the rules of the EPC. This means that the court's initiative is limited: interim measures are applied only at the request of interested parties, which complies with the principles of adversarial proceedings and equality of arms, and also ensures compliance with general economic procedural requirements when considering insolvency cases of natural persons.

The purpose of these measures is to simultaneously protect creditors' claims and the interests of the natural person. Therefore, the restrictions imposed by the court should not completely paralyze the debtor's activities but should be aimed at preventing the unjustified disposal of assets or the reduction of their value.

Furthermore, this provision lists specific types of interim measures as examples. Specifically, it specifies that a ban on the disposal of a portion of a natural person's property may be imposed, as well as a ban on holding auctions for the sale of property through an online electronic auction. This allows the court to choose the most effective and appropriate measure related to the fate of the property.

3. The provisions of part three of this article provide for a special legal mechanism for the revision of contractual obligations in the context of the introduction of a procedure for restructuring the debt of a natural person.

According to this provision, the introduction of a debt restructuring procedure constitutes an independent legal basis for a natural person to unilaterally terminate an agreement providing for the fulfillment of a monetary obligation to a specific creditor. This provision constitutes an exception to the general rule of civil law, as unilateral termination of an agreement or refusal to perform it is generally only possible in cases expressly provided for by law or the agreement itself.

This provision allows the debtor to cancel not all contracts, but only those contracts under which a specific creditor's claim is subject to monetary payment. Thus, the legislator aims to eliminate obligations that impede the debtor's financial recovery and disrupt the overall structure of its debt.

The rule that information about a unilateral termination of a contract may be disclosed during the process of establishing creditors' claims is of significant procedural significance. This prevents the possibility of a hidden or unfounded declaration of termination at a later stage and facilitates a clear determination of the amount and legal nature of the creditor's claims.

This provision does not disregard the interests of creditors. Claims arising from unilateral termination of a contract (for example, claims for damages or other consequences) may be considered in insolvency proceedings as creditor claims under the general procedure.

Thus, this provision is an important legal mechanism aimed at restoring the balance of contractual relations in the process of insolvency of a natural person, creating conditions for the financial stabilization of the debtor and, at the same time, ensuring a fair consideration of the claims of creditors.

4. The provisions of this rule establish a special rule concerning the duties and responsibilities of credit institutions in the context of the introduction of the procedure for restructuring the debt of a natural person.

Credit institutions are required to strictly comply with legal requirements when conducting transactions on natural persons' bank accounts and deposits, including accounts linked to bank cards. From the moment the debt restructuring procedure is introduced, transactions on these accounts are subject to a special legal regime, and any transactions with them may only be carried out within the limits established by law.

The issue of liability is related to the degree of awareness of the credit institution. If a bank or other credit institution was officially notified of the debt restructuring procedure or had prior knowledge of this fact, it may be held liable for transactions conducted in violation of established rules. This provision does not impose absolute liability on banks, but rather a liability principle based on fault.

This provision is aimed at preventing the diminution of a debtor's assets due to illegal actions by credit institutions or the creation of unjustified advantages in the interests of individual creditorss. Given that bank accounts are an important part of the bankruptcy estate, ensuring control over them is essential for the effectiveness of the insolvency procedure .

The type and scope of liability are applied "in the manner established by law," which does not exclude the possibility of applying civil, administrative, or other legal liability measures.

In general, this regulation is aimed at encouraging credit institutions to act responsibly as active participants in the insolvency proceedings of a natural person and is important for ensuring the financial interests of the debtor.

See also: International Commentary, p. 795.

Article 206. Limitation of Powers of a Natural Person Debtor

During the process of restructuring the debt of a natural person, the natural person debtor, with the consent of the meeting of creditors, may enter into the following transactions:

aimed at the direct or indirect alienation or purchase of property, securities, shares in the authorized capital (authorized fund) and vehicles in an amount not exceeding forty times the base calculation value;

on receiving and issuing loans, receiving credits, issuing sureties and guarantees, assignment of claims, transfer of debt, as well as transfer of property of a natural person into trust management;

on the transfer of a natural person's property as collateral.

Disputes related to the implementation of transactions provided for in the first part of this article shall be resolved by the court.

Starting from the date of introduction of the procedure for restructuring the debt of a natural person, he/she shall not have the right to transfer his/her property as a contribution or share in the authorized capital (authorized capital) of a legal entity, to acquire shares in the authorized capital (authorized capital), or to enter into gratuitous transactions, except for the cases provided for in the first part of this article.

A natural person has the right to open a special bank account and manage the funds deposited therein without the consent of the financial manager. The amount of transactions carried out by the natural person to manage the funds deposited in the special bank account is determined by a creditors' meeting and approved by the court.

If the creditors' meeting does not determine the maximum amount of transactions carried out by a natural person to manage funds, or the debtor who is a natural person is not satisfied with the established amount, such amount may be determined and approved by the court upon the application of the natural person debtor.

At the request of a natural person debtor, the court has the right to increase the maximum amount for the disposal of funds in his bank account.

The natural person debtor manages funds placed in other accounts (deposits) on the basis of the prior written consent of the financial manager.

The commented article establishes that, in the process of restructuring the debt of a natural person, the debtor's powers to conclude certain transactions and dispose of property and funds are limited and exercised under the control of a meeting of creditors, a financial manager, and the court, and a ban on certain actions is also established.

1. This provision is aimed at limiting and controlling the powers of a natural person debtor to enter into transactions during the debt restructuring process. According to it, a natural person debtor may enter into certain types of transactions only with the prior consent of a creditors' meeting. This requirement was introduced

to prevent the unjustified disposal of the debtor's assets, the increase of their debt obligations, or damage to the interests of individual creditors.

Firstly, the scope of transactions requiring consent is expressly established by law. Specifically, this category includes transactions aimed at the direct or indirect transfer or acquisition from others of property, securities, shares in the authorized capital (charter capital), and vehicles with a value not exceeding forty times the base calculation value. The establishment of a value limit serves the purpose of proportionately regulating control, taking into account the economic significance of such transactions.

Secondly, transactions such as obtaining and providing loans, obtaining credits, providing sureties and guarantees, waiving the right to claim in favor of another person, transferring debt, and transferring property into trust are also permitted only with the consent of the creditors' meeting. Since these transactions may increase the debtor's liabilities or directly impact their financial position, they are not permitted to be executed without supervision.

Thirdly, it is established that transactions involving the transfer of a natural person's property as collateral also cannot be concluded without the consent of the creditors' meeting. This prevents the granting of a preferential position to a single creditor through collateral and promotes the principle of equality among creditors.

In general, this rule limits the freedom of a natural person debtor to enter into transactions during the debt restructuring process and introduces a mechanism of collegial control through a meeting of creditors.

2. In accordance with the requirements of this norm, the court is granted the authority to resolve disputes arising from transactions specified in the first part of the article, which are concluded during the procedure for restructuring the debt of a natural person.

In accordance with it, all disputes arising between a natural person debtor and a meeting of creditors, as well as between the debtor and individual creditors or third parties on issues of the conclusion, execution or validity of the specified transactions, are considered by the court.

The court's dispute resolution procedure allows for the verification of the legality and validity of creditors' meeting decisions, the debtor's compliance with established restrictions when concluding transactions, and the presence or absence of violations of the rights and legitimate interests of third parties.

3. The provisions of part three of this Article constitute a special legal provision aimed at further restricting the property rights of a natural person debtor from the moment the debt restructuring procedure is initiated. According to this provision, a natural person debtor is prohibited from transferring their property as a contribution or share in the authorized capital of a legal entity, nor from acquiring a share in the authorized capital. At the same time, a prohibition is imposed on the natural person debtor from entering into gratuitous transactions. This restriction is introduced to prevent the disposal of the debtor's property from their estate through corporate

relations, hindering its return, or causing harm to the interests of creditors. Since the debtor may transfer property to others through transactions without receiving consideration, this prohibition is important for securing creditors' claims.

Furthermore, the restrictions established by this provision are not absolute. In cases stipulated by part one of this article, that is, with the consent of the creditors' meeting, certain transactions are permitted. This demonstrates the legislator's desire not to completely ignore the debtor's interests, but to ensure their proportionate alignment with the interests of creditors.

In other words, this norm is an important legal guarantee aimed at preserving the property of a natural person debtor during the debt restructuring process, preventing its unjustified disposal, and protecting the interests of creditors.

4. This provision establishes a special mechanism aimed at supporting the daily financial activities of a natural person debtor during the insolvency process. Specifically, it grants the natural person debtor the right to open a special bank account. This account is intended for the storage and use of funds related to the natural person's daily needs, and its opening serves to ensure minimal economic independence for the debtor even during the insolvency process.

Furthermore, this provision establishes that a natural person has the right to manage funds deposited in a special bank account without the prior consent of the financial manager. This rule allows for the prompt and unimpeded satisfaction of the debtor's daily needs and eliminates unnecessary administrative restrictions.

At the same time, the regulation also provides for a control mechanism. Specifically, the maximum total amount of transactions that can be conducted through a special bank account is determined by a creditors' meeting, and this decision is approved by the court. This procedure is aimed at preventing abuse of the debtor's discretion and ensuring that the use of funds does not cause damage to the estate.

In general, the provisions of this rule represent a legal mechanism that ensures a balance between the need to support the daily life of the natural person debtor, on the one hand, and the protection of the interests of creditors, on the other.

5. Part five of this article regulates the mechanism for establishing the maximum amount of funds to be disposed of from a bank account during the period of the debt restructuring procedure for a natural person.

According to the provisions of the rule, if a creditors' meeting fails to determine the maximum amount of monetary transactions carried out by a natural person, or if the established amount is insufficient to meet the debtor's subsistence and economic needs, the natural person debtor has the right to file a corresponding petition with the court. Based on this petition, the court may issue a ruling establishing the amount or increasing the previously established amount.

This norm serves as an important procedural guarantee aimed at preserving the ability to satisfy the debtor's vital and economic needs, ensuring proportionality with

the demands of creditors, and establishing a balanced financial order through judicial review.

6. This provision establishes the right of a natural person debtor to increase, through judicial proceedings, the maximum amount of funds held in their bank account during the debt restructuring process. Specifically, if the established maximum amount of funds held in the natural person debtor's bank account is insufficient to meet their living and economic needs, they have the right to petition the court to increase this limit in accordance with their needs.

Increasing the maximum amount of disposal of funds by the debtor on the basis of a court decision ensures the observance of balance and prevents violation of the interests of creditors.

7. The seventh part of this article establishes a mechanism for the controlled disposal of funds in bank accounts and deposits during the period of the debt restructuring procedure for a natural person.

According to the content of this rule, a debtor who is a natural person is obliged to obtain the prior written consent of the financial manager to use funds located in other bank accounts and deposits, with the exception of a special account.

This rule ensures transparency of cash flow and guarantees the safety of assets belonging to the estate from unjustified reduction. At the same time, the debtor is not entitled to use funds from deposits or other bank accounts at their own discretion and may only do so with the written consent of the financial manager.

This mechanism also serves as a control tool for the court and the creditors' meeting. Transactions carried out with the consent of the financial manager ensure compliance with the principles of legality, fairness, and proportionality to the interests of creditors. Furthermore, the financial manager's consent allows for oversight of actions taken based on the debtor's application or personal decisions**.**

See also: International Commentary, p. 796.

Article 207. Procedure for Submitting a Debt Restructuring Plan for a Natural Person

In the process of restructuring the debt of a natural person, the natural person debtor and (or) the creditor, within ten days from the date of expiration of the period provided for in Article 143 of this Law, have the right to submit to the financial manager a plan for restructuring the debt of the natural person.

Information on the procedure and place for familiarization with the draft plan for restructuring the debt of a natural person and the documents attached thereto shall be published in the manner established by this Law.

If the financial manager receives draft plans for restructuring the debt of a natural person from two or more persons, as provided for in the first part of this article, he shall submit such drafts for consideration to the meeting of creditors.

If the financial manager of a natural person has not received a single draft debt restructuring plan for the natural person within the period specified in this

article, they will work with the natural person debtor to develop a debt restructuring plan for the natural person. If the natural person debtor obstructs the development of such a plan, the financial manager of the natural person debtor will submit a proposal to the creditors' meeting to declare the natural person bankrupt and initiate a sale of their assets.

The financial manager is obliged to submit for consideration by the first meeting of creditors a draft plan for restructuring the debt of a natural person, objections to the submitted plan and (or) proposals for its revision (if there are such objections), as well as a report on his activities, a register of creditors, and information on the financial condition of the natural person debtor.

The draft plan for restructuring the debt of a natural person shall be considered by the meeting of creditors in the manner established by this Law.

No later than five days before the date of the court hearing on the insolvency of a natural person, the financial manager of a natural person is obliged to submit to the court a report on his activities, information on the financial condition of the natural person, the minutes of the meeting of creditors at which the draft plan for restructuring the debt of the natural person was considered, with the documents provided for in Article 16 of this Law attached.

The commented article defines the procedure for preparing, presenting, considering at a meeting of creditors and sending to the court a plan for restructuring the debt of a natural person, as well as the tasks and powers of the financial manager in this process.

1. This provision is aimed at establishing clear procedural frameworks for the development and submission of a debt restructuring plan as part of the debt restructuring procedure for a natural person. According to this provision, the natural person debtorand/or the creditor have the right to submit a debt restructuring plan for the natural person to the financial manager within ten days of the expiration of the period stipulated by Article 143 of this Law.

This rule is primarily aimed at ensuring the proactive participation of those involved in the debt restructuring process—the debtor and creditors. By granting the right to submit a plan not only to the debtor but also to the creditor, the law creates the opportunity to develop alternative and competitive debt restructuring models. This facilitates the selection of the most optimal and economically feasible solution aimed at restoring the debtor's solvency.

At the same time, establishing a ten-day deadline prevents artificial delays in developing a debt restructuring plan and ensures that the process is completed within a reasonable timeframe. Within this timeframe, the financial manager has the opportunity to accept the submitted plans, summarize them, and prepare them for subsequent consideration at a creditors' meeting.

In general, this norm establishes the procedural basis for the formation of a plan for restructuring the debt of a natural person, ensuring the proportionality of the interests of the debtor and creditors, as well as the effectiveness of insolvency

proceedings, and represents an important legal mechanism aimed at achieving these goals.

2. The provisions of part two of this article are aimed at ensuring the principles of transparency and awareness during the consideration of a natural person's debt restructuring plan. According to this provision, information regarding the procedure and location for reviewing the draft debt restructuring plan and accompanying documents must be published in accordance with the procedure established by law.

This requirement, first of all, provides creditors and other interested parties with the opportunity to become familiar with the content of the plan in a timely manner, assess its economic and legal feasibility, and make reasonable objections or suggestions.

At the same time, publishing information strengthens public and creditor oversight of the actions of the natural person debtor and reduces the likelihood of the restructuring being concealed or being tailored to the interests of certain stakeholders. Compliance with the official publication procedure established by law facilitates the recognition of the plan as a document of legal significance for all parties involved.

Thus, this norm is an important guarantee of ensuring the principles of openness, equal information, and fair decision-making in the process of developing and approving a natural person's debt restructuring plan.

3. The provisions of this rule define the decisive role of the creditors' meeting in the process of selecting a debt restructuring plan for a natural person. According to this rule, if the financial manager receives two or more draft restructuring plans submitted by the natural person debtor and /or creditors, they are obligated to submit all of these drafts to the creditors' meeting for consideration.

This requirement limits the financial manager's powers, preventing them from independently selecting or rejecting plans. Thus, the law ensures that various restructuring options can be considered on equal terms, and that the most optimal and economically feasible solution can be selected by the creditors' meeting.

This rule is an important procedural mechanism that ensures collegiality, transparency and balance of interests in the procedure for restructuring a natural person's debt.

4. The provisions of part four of this article define the active and proactive role of the financial manager in the procedure for restructuring the debt of a natural person, as well as the obligation of the debtor to cooperate.

According to this provision, if no draft debt restructuring plan for a natural person is submitted to the financial manager within the statutory timeframe, the financial manager is obligated to take the necessary steps to develop such a plan jointly with the natural person debtor. This rule is aimed at preserving as much as possible the possibility of restoring the debtor's solvency, which is the primary goal of the restructuring procedure. Entrusting the financial manager with the initiative to

develop the plan prevents proceedings from being formally halted and provides the debtor with the opportunity for financial recovery.

At the same time, the regulation also establishes the requirement for the natural person debtorto act in good faith. If the debtor obstructs the development of a plan, i.e., refuses to cooperate with the financial manager or artificially delays the process, the law considers this circumstance an indication of the impossibility of restoring solvency. As a result, the financial manager is entitled to submit a proposal to the creditors' meeting to declare the natural person bankrupt and initiate the sale of their assets.

Thus, this rule ensures alternativeness and consistency between the debt restructuring procedure and the property sale procedure, and also serves to determine the further direction of the proceedings depending on the good faith of the debtor.

5. This rule establishes the obligations of the financial manager to provide information within the framework of the procedure for restructuring the debt of a natural person.

According to this rule, the financial manager is obliged to submit for consideration by the first meeting of creditors a plan for restructuring the debt of a natural person, objections and (or) proposals for its revision (if any), as well as a report on his activities, a register of creditors and information on the financial condition of the natural persons debtor.

This requirement is aimed at providing the creditors' meeting with complete and reliable information necessary for decision-making. The presentation of the restructuring plan, along with any objections and proposals, allows creditors to assess the economic feasibility and feasibility of implementing the plan. The register of creditors and information on the debtor's financial status are key to determining the composition, amount, and potential for satisfaction of claims.

At the same time, the financial manager's report on his activities ensures control over the way in which he exercises his powers and facilitates the adoption of a reasoned and reliable decision by the meeting of creditors.

6. This rule defines the powers of the meeting of creditors when considering and evaluating the debt restructuring plan of a natural person.

According to this rule, a draft debt restructuring plan for a natural person is considered only by a creditors' meeting in the manner prescribed by this Law. This rule ensures a balance of interests by delegating the decision on the restructuring plan not to a single body, but to the creditors' meeting as a collegial body expressing the will of the creditors. The creditors' meeting has the right to evaluate the plan's content, its economic feasibility, possibility of implementation, and the extent to which creditors' claims are satisfied.

At the same time, the provision "in the manner established by this Law" requires strict adherence to procedural requirements such as convening a meeting, voting, making a decision, and recording minutes. This ensures the legal validity of the plan's review results and the possibility of its subsequent evaluation by a court.

Overall, this provision strengthens the principles of collegiality, legality and openness when considering a natural person's debt restructuring plan.

7. The provisions of part seven of this article establish the obligation of the financial manager to submit a report and information during the consideration of the case of insolvency of a natural person in court.

According to this provision, the financial manager is obliged, no later than five days before the date of the court hearing, to submit to the court a report on his activities, information on the financial condition of the natural person debtor, the minutes of the meeting of creditors at which the draft plan for restructuring the debt of a natural person was considered, as well as the documents stipulated by Article 16 of the Law.

This requirement is aimed at providing the court with timely, complete, and reliable information necessary for making a decision on the case. The financial manager's performance report allows for an assessment of how they are exercising their powers, and information on the debtor's financial status is key when deciding whether to approve the restructuring plan or proceed to the next stage.

Submitting the minutes of the creditors' meeting confirms that the creditors' will regarding the restructuring plan has been fully formed, the decision-making process has been followed, and the legality of the meeting's results. The five-day deadline provides time to prepare for the hearing, review the documents submitted, and render an objective opinion.

Thus, this norm is an important legal guarantee that ensures procedural discipline, openness and effectiveness of judicial review when considering a case of insolvency of a natural person.

See also: International Commentary, p. 796.

Article 208. Requirements for a Natural Person's Debt Restructuring Plan

A natural person's debt restructuring plan must meet the following requirements:

the natural person debtor must have a source of income on the date of submission of the natural person's debt restructuring plan;

prior to the date of acceptance of the application for recognition of a natural person as insolvent, proceedings were terminated in cases of bringing a natural person to administrative or criminal liability for committing petty theft, on the grounds of intentional destruction, harm or damage to property, or false insolvency or intentional insolvency, and the natural person's criminal record for intentionally committing a crime in the economic sphere was also removed or expunged;

during the five years preceding the submission of the debt restructuring plan, the natural person was not declared bankrupt, and the procedure for selling his property was not applied;

during the eight years preceding the submission of this plan, no debt restructuring plan for the natural person was approved.

The natural person debtor is obliged to notify creditors:

on the facts of committing petty theft, intentional destruction, harm or damage to property, illegal actions during insolvency, bringing to administrative or criminal liability for false insolvency or intentional insolvency;

about criminal and administrative cases known to a natural person, as well as about the removal of a criminal record or the expungement of a criminal record;

on debt restructuring plans during the preceding eight years prior to the submission of a previously adopted decision within five years to declare a natural person bankrupt and applying the procedure for the sale of his property or a plan for restructuring his debt.

The information provided for in the first part of this article shall be indicated in the debt restructuring plan of a natural person.

The commented article establishes requirements for a natural person's debt restructuring plan, including the debtor's availability of a source of income, restrictions related to certain offenses and instances of bankruptcy, and the obligation to notify creditors.

1. This provision defines the personal, financial, and legal criteria required for the application of a natural person's debt restructuring plan. These requirements are intended to limit the use of debt restructuring to only those debtors who have a real potential for restoring solvency and who act in good faith. According to this provision, a natural person's debt restructuring plan must meet the following requirements.

Firstly, the natural person debtor must have a source of income on the plan submission date. This requirement ensures that the restructuring plan is not merely declarative in nature and has an economic basis for its actual implementation. Having a source of income allows for the satisfaction of creditors' claims in accordance with the established payment schedule.

Secondly, the regulation imposes restrictions related to the debtor's legal conduct. Specifically, before an insolvency petition is accepted, any administrative or criminal charges against the debtor for petty theft, intentional destruction or damage to property, or fictitious or deliberate insolvency must be resolved. Furthermore, any conviction for an intentional economic crime must be removed or expunged. This requirement ensures that the restructuring mechanism applies exclusively to bona fide debtors.

Third, the regulation establishes time limits aimed at preventing the repeated and unfair use of insolvency and restructuring procedures. Specifically, it requires that the natural person have not been declared bankrupt or subject to asset foreclosure proceedings within the five years preceding the plan's submission. Furthermore, no debt restructuring plan must have been approved for the natural person within the previous eight years.

These requirements are based on criteria for the economic feasibility, legality, and good faith implementation of a natural person's debt restructuring plan. They are aimed at protecting the interests of creditors and ensuring the stable functioning of the natural person debt restructuring mechanism.

2. The second part of this article establishes the obligation of a natural person debtor to provide creditors with complete and objective information as part of the debt restructuring plan. According to this provision, the debtor is obligated to provide creditors with the following information:

Information on offenses and cases of liability related to the restructuring process. A natural person is required to provide information on any administrative or criminal charges against them for petty theft, intentional damage or destruction of property, illegal actions committed during the period of insolvency, as well as for fictitious or deliberate insolvency. This requirement allows creditors to assess the debtor's financial integrity and legal reliability.

Information on criminal and administrative offenses. Physical persons are required to provide information on known criminal convictions, as well as information on the removal or expungement of criminal records. This helps ensure the credibility of the restructuring plan and the ability of creditors to make informed decisions.

Disclosure of insolvency and debt restructuring history. The debtor is required to notify creditors whether they have been declared bankrupt within the last five years, whether a foreclosure proceeding has been applied to them, and whether a debt restructuring plan has been submitted within the last eight years. This requirement is aimed at preventing repeated and unfair use of debt restructuring.

These provisions thus provide a legal guarantee for the principles of transparency, debtor accountability, and protection of creditors' legitimate interests. They enable creditors to objectively assess the debtor's financial and legal position and ensure the reliable and effective implementation of the debt restructuring plan.

3. This rule establishes that when preparing a debt restructuring plan for a debtor who is a natural person, all essential information must be reflected in it.

This requirement is intended to ensure that a natural person's debt restructuring plan is a complete, objective, and reliable source of information for creditors. At the same time, this provision enshrines the debtor's obligation to adhere to the principles of openness and accountability, enabling creditors and judicial authorities to comprehensively and reasonably assess the plan's legality, as well as the feasibility and feasibility of its practical implementation.

See also: International Commentary, p. 796.

Article 209. Contents of the Debt Restructuring Plan of a Natural Person

The debt restructuring plan for a natural person must specify the demands of the natural person's creditors, as well as the procedure and timeframe for satisfying the demands.

The procedure for notifying creditors and the relevant authorized body about the existence of significant changes in the financial situation of a natural person is determined in the debt restructuring plan.

The period for implementing a natural person's debt restructuring plan may not exceed three years.

The plan for restructuring the debt of a natural person must provide for the satisfaction of claims in full for the natural person's obligations secured by collateral, using funds received from the sale of property secured by collateral.

The debtor's claims, which are claims of a natural person, for compensation for harm caused to the life or health of citizens, as well as the collection of alimony, payments arising from labor and equivalent legal relationships, and claims for payment of remuneration to the author based on the results of intellectual activity, are included in the debt restructuring plan of the natural person.

Proportional satisfaction of the claims of creditors and the relevant authorized body included in the debt restructuring plan of a natural person is established.

With the separate consent of the creditor and/or the relevant authorized body, the debt restructuring plan for a natural person may provide for partial reimbursement of the claim of the person who has given such consent.

In cases provided for by this Law, the debt restructuring plan of a natural person may include provisions on the procedure and timeframe for the sale of property that is the subject of the pledge.

The commented article establishes that the plan for restructuring the debts of a natural person must necessarily reflect the demands of creditors, the procedure and timeframes for their satisfaction, the demands secured by collateral, mandatory payments, as well as the procedure for informing about the financial situation of the debtor.

1. This provision stipulates that a natural person's debt restructuring plan must clearly specify creditors' claims, as well as the procedure and timeframe for their satisfaction. This requirement is aimed at ensuring transparency and stability in legal relations between the debtor and creditors.

The plan must reflect the claims of each creditor, as well as their legal basis and the timeframe for satisfaction. This allows creditors to protect their rights and objectively assess the debtor's financial obligations in full. Furthermore, a clear definition of the requirements in the plan allows the court and authorized bodies to verify the plan's legality and ensure its practical implementation.

2. The content of this rule stipulates that a natural person's debt restructuring plan must establish a procedure for notifying creditors and the authorized body of significant changes in the debtor's financial situation. This rule is aimed at ensuring transparency in relations between the debtor and creditors.

In other words, if significant or material changes occur in the debtor's financial situation, creditors and the relevant authorized body must be promptly notified. This, in turn, allows creditors to assess financial risks and take appropriate measures.

Furthermore, this requirement must be implemented in a manner expressly provided for in the plan, meaning the notification mechanism and timeframe must be clearly defined. This provision ensures legal stability and oversight during the debt restructuring process, and creates conditions for an objective assessment of the debtor's financial position.

3. This provision stipulates that the implementation period for a natural person's debt restructuring plan must be determined and must not exceed three years. This rule is aimed at ensuring the effectiveness and controllability of the debt restructuring procedure.

In other words, the time limit prevents excessive and indefinite delays in restoring the debtor's financial stability and facilitates oversight of the plan's implementation by creditors and authorized bodies. At the same time, the three-year period serves as the primary guideline for the debtor and creditors when planning the implementation of the restructuring plan.

4. Part four of this article stipulates that the debt restructuring plan for a natural person must guarantee full satisfaction of claims for obligations secured by collateral. This means that the proceeds from the sale of the property subject to the collateral must be used to fully repay all outstanding debts for obligations secured by the collateral.

Thus, this provision ensures the protection of creditors' rights and the fair satisfaction of their claims. This procedure increases the debtor's liability for fulfilling obligations secured by collateral and creates a fair mechanism for distributing proceeds from the sale of assets. In other words, the provisions of the debt restructuring plan concerning obligations secured by collateral must meet the requirements of completeness and certainty. This ensures the possibility of oversight by creditors and authorized bodies and promotes legal stability.

5. According to the content of this norm, the debt restructuring plan of a natural person must include obligations to compensate for harm caused to the life and health of citizens, the collection of alimony, payments arising from labor and equivalent legal relationships, as well as the payment of royalties for the results of intellectual activity.

The main purpose of this requirement is to ensure the debtor's proper fulfillment of their social and civic obligations. By clearly defining the procedure and deadlines for fulfilling these obligations, the debt restructuring plan guarantees legal certainty for creditors, injured parties, and the relevant authorized bodies.

Furthermore, from a procedural perspective, including these obligations in the plan allows for monitoring their fulfillment and ensuring proper compliance. This is essential for the court and the financial manager when monitoring and overseeing the debtor's fulfillment of their obligations. In other words, this provision is aimed at ensuring fair protection of both the debtor's financial and social obligations, as well as the rights of creditors and persons who have suffered damages.

6. In accordance with the requirements of this norm, the requirements specified in the debt restructuring plan of a natural person must be satisfied in compliance with the principle of proportionality of the interests of creditors and the relevant authorized body.

This requirement ensures a fair distribution of payments, taking into account the debtor's financial capacity and ability to implement the debt restructuring plan. The principle of proportionality aims to ensure maximum equality of treatment for creditors and maintain legal stability, while simultaneously guaranteeing the lawful and effective fulfillment of obligations, taking into account the debtor's economic situation.

Thus, this norm represents one of the key elements of the mechanism for ensuring the legality, fairness, and effectiveness of execution in the debt restructuring process.

7. Part seven of this article provides for the possibility of partial satisfaction of claims based on a natural person agreement within the framework of a natural person's debt restructuring plan. This means that if the creditor or the relevant authorized body has given separate consent, the claims included in the plan may be satisfied in part rather than in full.

This provision is aimed at ensuring a fair and coordinated distribution of debt obligations between the debtor and creditors, taking into account the debtor's financial position and solvency. Furthermore, the rule provides a procedural oversight mechanism through the approval of the plan by the creditors' meeting and the court, ensuring its effective implementation. In other words, this rule creates the opportunity for the debtor and creditors to reach a financially viable solution while maintaining legal balance and facilitates the effective implementation of the restructuring plan.

8. This provision stipulates that a natural person's debt restructuring plan may define legal mechanisms related to the sale of pledged assets, as well as the timeframes for their application. Specifically, if the debtor's obligations are secured by collateral, the plan may establish the procedure and timeframe for the sale of the pledged assets. Such procedure and timeframes are determined in consultation with creditors and the relevant authorized body, ensuring the effective implementation of the restructuring plan and the fair distribution of proceeds.

From a procedural perspective, this provision applies as a rule, implemented under the supervision of the court and the financial manager. This means that decisions and practical measures related to the sale of collateral must be expressly provided for in the restructuring plan.

In other words, this provision legally enshrines the possibility of reflecting in the plan the mechanisms for the full satisfaction of claims secured by collateral, as well as establishing deadlines for their implementation.

See also: International Commentary, p. 796.

Article 210. Documents Attached to the Debt Restructuring Plan of a Natural Person

The following documents are attached to the debt restructuring plan for a natural person:

list of property and property rights of a natural person;

information on the natural person's sources of income for the six months preceding the submission to the court of his debt restructuring plan;

information on accounts payable, including payments on current liabilities;

a credit report received from the organization maintaining the collateral registry and information about the natural person's credit history;

an application from a natural person if he or she has objections to the presentation of a debt restructuring plan by the creditor or the relevant authorized body.

Copies of documents (if available) confirming a natural person's property and property rights are also attached to the debt restructuring plan.

The commented article establishes a list of documents that must be attached to a natural person's debt restructuring plan when it is submitted to the court.

1. The debt restructuring plan for a natural person provided for by this provision is aimed at assessing the interests of creditors, the debtor's solvency, and the feasibility of a lawful and reasonable debt restructuring. Therefore, when reviewing the plan, certain documents must be submitted to the court. Attaching these documents to the plan ensures the provision of objective, accurate, and reliable information about the debtor's financial situation.

1.1. The list of a natural person's property and property rights must fully reflect the debtor's actual assets and financial capabilities. It must include information on real estate, vehicles, valuables, equity interests, shares, claims, and other property rights. This information serves as the basis for the court and creditors to assess the debtor's ability to repay the debt.

1.2. Information on sources of income for the past six months preceding the plan's submission to the court. For the plan to be realistic and achievable, it must fully reflect all sources of the debtor's income for the past six months, including employment income, business income, rental income, pensions, benefits, and other types of income. This information is the primary criterion for determining the debtor's ability to fulfill their obligations under the restructuring plan.

1.3. Information on accounts payable and current mandatory payments. For the court to consider the plan, information on all of the debtor's obligations must be provided, including the principal amount of the debt, accrued interest, penalties and

fines, current utility and social payments, outstanding mandatory social benefits, and other obligations, with exact amounts indicated. This information is necessary to determine the priority of creditor claims and the payment distribution procedure.

1.4. A credit report and credit history obtained from the organization maintaining the collateral registry. The debtor's credit report contains objective information about their additional debt obligations, current contractual obligations, and financial discipline. Providing a credit history allows the court to determine the debtor's financial integrity and assess the reliability and feasibility of the restructuring plan.

1.5. A natural person's statement of objections to the plan submitted by the creditor or authorized body (if any). If the restructuring plan was submitted not by the debtor, but by the creditor or authorized body, the debtor has the right, if they disagree with its content, to submit reasoned objections in the form of a statement. Such a statement serves as a means of exercising the debtor's procedural rights and protecting their legitimate interests.

The above documents ensure that a natural person's debt restructuring plan is prepared on an objective, reliable, and legal basis. They allow the court to comprehensively assess the debtor's financial situation and ensure fair satisfaction of creditors' claims.

2. According to the provisions of part two of this article, the requirement to attach copies of documents confirming a natural person's property and property rights (if any) to the debt restructuring plan is a legally established method of documenting the debtor's financial situation. This provision is intended to ensure that the list of assets and property rights provided by the debtor is not merely declarative in nature, but is supported by official documents. This allows the court to objectively and reliably assess the debtor's financial situation, determine the feasibility of implementing the restructuring plan, and simultaneously ensure the protection of creditors' interests.

The phrase "if available" in the provision acknowledges that the debtor may lack certain documents for objective reasons. However, all documents in their possession confirming ownership or other property rights are subject to mandatory submission. Submission of supporting documents allows for the formal establishment of such material circumstances as the existence of a registered right to property, the scope of property rights, the value of the property, and any restrictions or encumbrances applicable to it.

Furthermore, concealing documents or providing information based only on assumptions and not supported by evidence may raise doubts about the legality of the restructuring procedure and entail liability for the debtor.

See also: International Commentary, p. 796.

Article 211. Consideration by the Court of a Natural Person's Debt Restructuring Plan

A debt restructuring plan for a natural person approved by a meeting of creditors is subject to approval by the court if, in accordance with Article 221 of this Law, full satisfaction of claims for current obligations that must be satisfied, claims of first- and second-priority creditors included in the register of creditors' claims, is provided for.

If the creditors' meeting does not approve the debt restructuring plan of a natural person, when a party to the insolvency case of a natural person applies to the court with a petition for an additional period to revise the said plan, the court may postpone consideration of the issue of approving the debt restructuring plan of the natural person.

The additional period for finalizing a natural person's debt restructuring plan granted by the court may not exceed two months.

Based on the results of the review of the natural person's debt restructuring plan, the court makes one of the following decisions:

determination on approval of a plan for restructuring the debt of a natural person;

a decision to refuse to approve a natural person's debt restructuring plan, as well as to declare a natural person bankrupt and introduce the procedure for selling his property.

If the creditors' meeting does not approve the debt restructuring plan of a natural person, the court has the right to approve this plan under the following circumstances:

the implementation of the plan will make it possible to fully satisfy the claims of all creditors of a natural person;

as a result of the sale of a natural person's property, as well as the amount of his average six-month income, satisfies at least fifty percent of the claims of the creditor and the relevant authorized body.

The judicial decisions provided for in this article may be appealed (contested).

The commented article provides for the procedure for the court to consider a natural person's debt restructuring plan, and also defines the issues to be resolved by the court within the framework of this procedure, its procedural features and the possibility of appealing judicial decisions.

1. In accordance with this provision, if the debt restructuring plan of a natural person provides for mechanisms for the full satisfaction of current obligations specified in Article 221 of the Law, as well as the claims of first and second priority creditors included in the register of creditors' claims, such a plan, after its approval by the creditors' meeting, is subject to mandatory approval by the court.

This provision stipulates that if the plan fully satisfies priority claims that are legally required to be repaid, the court is obligated to approve it. Thus, the provision establishes that if a natural person's debt restructuring plan fully complies with legal

requirements and is approved by creditors, the court is obligated to approve it. This is aimed at protecting the interests of creditors, restoring the debtor's financial stability, and ensuring legal certainty in the procedure.

2. If the debt restructuring plan of a natural person has not been approved by the creditors' meeting, one of the parties to the case has the right to apply to the court with a petition for an additional period to revise the plan and bring it into compliance with the creditors' demands.

Upon receipt of such a petition, the court, based on the procedural rules applicable at the given stage of the case, has the right to defer consideration of the natural person's debt restructuring plan. In other words, if additional time is required to revise or improve a plan that has not received creditors' approval, the court, taking these circumstances into account, may not make an immediate decision but instead provide an opportunity to revise the plan and defer consideration of its approval to a later date within the timeframe established by law. The court then issues a ruling deferring consideration of the petition.

3. Part three of the commented article provides for the possibility of the court granting an additional period for finalizing (bringing into proper form) the plan for restructuring the debts of a natural person, while the legal limits of such a period are directly established by law.

According to this legal provision, the maximum additional time period that the court may grant is two months. This means that the court has the right to grant additional time upon request, but such time may not exceed two months, and the court is not permitted by law to grant a longer time period.

This rule ensures procedural discipline, prevents unreasonable delays in the restructuring procedure, and serves to maintain a balance of rights between creditors and the debtor.

4. When considering a natural person's debt restructuring plan, the court, within the procedural powers granted to it by law, may make only one of two types of decisions. These decisions determine the further development of this procedure and shape the legal consequences of the natural person's insolvency case. The court may make one of the following decisions:

4.1. Decision approving a natural person's debt restructuring plan. If such a decision is made, the restructuring plan becomes legally binding on the debtor and creditors, and the measures provided for therein are subject to implementation in accordance with the established procedure.

4.2. Decision to deny approval of a natural person's debt restructuring plan, declare the natural person bankrupt, and initiate the process of liquidation of their assets. If the court concludes that there are no legal or economic grounds for approving the plan, it will deny its approval and, simultaneously, in accordance with legal requirements, officially establish the debtor's insolvency and initiate the process of liquidation of their assets. This means that the possibility of debt

restructuring has been exhausted, and the debtor is declared bankrupt, with the process of liquidation of their assets commencing.

5. The provisions of part five of the commented article establish that the mere fact of a creditors' meeting's disapproval of a natural person's debt restructuring plan does not automatically result in its denial. The law provides for the possibility of granting the court the right, in certain cases, to deviate from the decision of the creditors' meeting and independently approve the restructuring plan. The court has the right to approve the plan without creditors' approval if the following conditions are met.

5.1. If the plan's implementation allows for the full satisfaction of all creditors' claims, the restructuring plan is economically beneficial for creditors, as it ensures the full payment of their claims. Therefore, even without approval from the creditors' meeting, the court has the right to approve such a plan, assuming it fully satisfies all creditors' claims.

5.2. If the sale of a natural person's assets, taking into account the debtor's average six-month income, ensures the satisfaction of at least 50 percent of the creditors' and authorized body's claims. In other words, if the implementation of the restructuring plan, through the sale of the debtor's existing assets and their average six-month income, allows for the satisfaction of at least half of the creditors' claims, the court has the right to approve such a plan, regardless of a decision by the creditors' meeting to deny its approval.

The purpose of this legal mechanism is to prevent creditors from unjustifiably refusing to comply with the restructuring plan, which could lead to the debtor being declared bankrupt and proceeding to the property sale procedure, as well as to preserve an economically feasible opportunity to restore the debtor's solvency through restructuring.

6. According to the rule established by this norm, the judicial acts provided for in this article—decisions and orders of the court on the approval of a plan for restructuring the debts of a natural person, on the refusal to approve it, on declaring a natural person bankrupt and introducing the procedure for the sale of his property - are among the judicial acts that may be appealed or contested in the manner established by procedural legislation.

This provision guarantees the possibility of reviewing procedural decisions made by the court and grants case participants the right to appeal them through appellate or cassation proceedings to the appropriate court, and, in cases provided by law, the right to lodge a protest with the prosecutor. This mechanism ensures oversight of court decisions, the elimination of possible legal errors or procedural violations, and guarantees the exercise of procedural rights for those involved in the case.

See also: International Commentary, p. 797.

Article 212. Grounds for Refusal to Approve a Natural Person's Debt Restructuring Plan

The court decides to refuse to approve a natural person's debt restructuring plan in cases where:

the debt restructuring plan of a natural person does not meet the requirements of Article 208 of this Law;

the plan for restructuring a natural person's debt does not establish a procedure for notifying creditors and the relevant authorized body about significant changes that have occurred in his financial situation;

the debt restructuring plan of a natural person has not been approved by the meeting of creditors in accordance with the requirements of this Law, except for the cases provided for in part five of Article 211 of this Law;

the natural person's debt restructuring plan and the documents attached to it contain inaccurate information;

the terms of the natural person's debt restructuring plan are contrary to this Law and other regulatory legal acts.

The commented article establishes the circumstances that serve as grounds for economic courts to refuse to approve a plan for restructuring the debts of a natural person.

The court decides whether to approve or deny a natural person's debt restructuring plan based on clearly established criteria. The law provides for a number of circumstances in which the court must deny approval of such a plan.

The court will refuse to approve a natural person's debt restructuring plan if the plan does not comply with the requirements of Article 208 of the Law. If the structure, form, or content of the natural person's debt restructuring plan does not meet the requirements of the law, the court has no right to approve it. This indicates a lack of proper legal and economic justification for the plan. The court will also refuse to approve the plan if it does not provide for a procedure for notifying creditors and the authorized body of material changes in the debtor's financial situation. The law requires mandatory notification mechanisms to ensure control during the debt restructuring process. If such mechanisms are not reflected in the restructuring plan, the court will refuse to approve it.

A debt restructuring plan for a natural person that is not approved by creditors is generally subject to rejection. However, exceptions exist in cases expressly provided by law, where the court has the right to approve the plan independently (for example, if the plan ensures full repayment of claims or satisfaction of at least 50 percent of creditors' claims).

Furthermore, the provision of false or intentionally distorted information about the debtor's financial status, income, or liabilities is grounds for the court to refuse to approve a natural person's debt restructuring plan, as such circumstances pose a threat to the interests of creditors. The legal basis for a natural person's debt

restructuring plan must comply with current legislation, and if the plan contains conditions that contradict the law, the court is obligated to refuse its approval.

In general, the above requirements are aimed at ensuring the legality and economic feasibility of a natural person's debt restructuring plan and protecting the interests of creditors, as well as implementing the court's supervisory function in this area.

See also: International Commentary, p. 797.

Article 213. Consequences of Approval of a Plan for Restructuring the Debt of a Natural Person

From the date of approval by the court of the debt restructuring plan for a natural person, the following consequences occur:

the claims of creditors included in the plan shall be presented to a natural person only in the manner and under the conditions provided for in this plan;

creditors' claims not included in the plan may be presented to a natural person in the manner established by this Law;

creditors are not entitled to make claims for compensation for losses incurred by them after the approval of the plan;

the termination of a natural person's claims for monetary obligations by offsetting a counterclaim is not permitted unless otherwise provided by the plan;

no penalties (fines, interest) or other sanctions are charged for failure to fulfill or improper fulfillment of monetary obligations and obligations on taxes and duties, as well as interest on payment terms that are included in the plan but not fulfilled or improperly fulfilled, with the exception of current payments;

a natural person is required to notify the creditor and the relevant authorized body in writing of a material change in their financial position in relation to the established debt restructuring plan within fifteen days of the date of such change. The criteria for a material change in a natural person's financial position are established in the debt restructuring plan.

During the period of execution of the debt restructuring plan for a natural person, the natural person debtor does not have the right to conceal the implementation of this plan when applying for a loan, as well as when purchasing goods (works, services) on credit.

Creditors and/or the relevant authorized body whose claims are not included in a natural person's debt restructuring plan may present such claims during the plan's approval in accordance with the procedure established by this Law. Such claims, included in the register of creditors' claims, shall be satisfied under the general terms and conditions stipulated by the natural person's debt restructuring plan.

The commented article establishes the procedure for satisfying creditors' claims after the court has approved a natural person's debt restructuring plan, the consequences of non-accrual of interest, the obligation to notify of significant

changes in the debtor's financial situation, and the debtor's obligation to provide information about his financial status.

1. The legal consequences arising from the date of court approval of a natural person's debt restructuring plan are established by this provision in order to ensure legal certainty and stability. According to this provision, the debtor (natural person) is primarily obligated, during the plan's validity, to disclose the existence of such a plan when assuming new debt obligations or purchasing goods (works, services) on credit.

1.1. Creditors' claims included in a natural person's debt restructuring plan are subject to satisfaction by the debtor exclusively in the manner and under the terms stipulated by the plan. In other words, once a creditor's claim is included in the plan, it is satisfied not according to the general rules of law, but in accordance with the terms, methods, and amounts expressly established in the court-approved plan. This ensures consistent and controlled fulfillment of the debtor's obligations, adherence to the principles of equality and fairness in relation to creditors, and creates conditions for the stable and timely implementation of the restructuring plan.

1.2. A special legal regime has been established for creditor claims not included in a natural person's debt restructuring plan, as such claims are not automatically covered by the plan. Therefore, a creditor or authorized body has the right to file a corresponding claim separately, following special procedures stipulated by law. The consideration of such a claim, its inclusion in the register, and subsequent satisfaction are carried out in accordance with the principles and rules established by this Law. This provision is aimed at preserving claims not included in the plan in legal circulation, preventing restrictions on creditor rights, and regulating all claims based on the principle of legal certainty.

1.3. Legislation, as a general rule, does not permit the termination of claims on a natural person's monetary obligations by offsetting mutual claims. This is primarily aimed at ensuring the comprehensive and controlled implementation of the restructuring plan, as well as preventing the emergence of inequality between creditors as a result of mutual settlements between the debtor and an individual creditor. If the plan provides for a different, specific rule on this matter, actions may be carried out in accordance with it; otherwise, any offsetting of mutual claims is prohibited. This procedure serves to ensure the fair satisfaction of the debtor's obligations based on the general mechanism established by the plan.

1.4. This rule is intended to ensure that, during the period of a natural person's debt restructuring plan, settlements with creditors are carried out in a stable, manageable manner, and without increasing the debtor's excessive debt burden. According to this provision, if monetary obligations or tax and duty obligations included in the plan are not fulfilled or are fulfilled improperly, no additional penalties, fines, late fees, or other sanctions will be charged. Also, no additional interest will be charged on obligations included in the plan but not repaid within the established period. This is intended to stabilize the debtor's financial situation,

prevent an increase in their debt burden, and create conditions for the effective implementation of the plan. However, this benefit does not apply to current payments; that is, if obligations arising after the approval of the plan (current payments) are not fulfilled in a timely manner, penalties and sanctions may still accrue.

1.5. This provision establishes the responsibility and obligation of a natural person to ensure transparency within the restructuring plan. According to the rule, if a debtor who is a natural person experiences material changes in their financial situation that could affect the plan's implementation, they are required to notify the creditor and the relevant authorized body in writing within fifteen days of the change. This requirement is essential for a timely reassessment of the debtor's financial capabilities, making necessary adjustments to the plan, and protecting the interests of creditors. What changes in financial situation are considered "material" is not determined uniformly for each case, but is specifically established in the natural person's debt restructuring plan.

2. The provisions of part two of this article are aimed at ensuring principles of openness and accountability in all financial relations during the period of a natural person's restructuring plan. According to this rule, a natural person debtor, during the plan's term, is not entitled to conceal the existence of a debt restructuring plan when applying for a new loan or receiving goods, works and services on credit. This requirement ensures that creditors, suppliers, and other counterparties receive complete and reliable information about the debtor's actual financial condition and guarantees them equal and fair treatment when assessing risks and making appropriate decisions. At the same time, this rule prevents the debtor from assuming new obligations unreasonably or through misrepresentation, which could hinder the process of achieving financial stabilit and serves as a guarantee of the effective implementation of the restructuring plan.

3. This provision defines the legal status of creditors' claims not included in a natural person's debt restructuring plan after the plan's approval. According to the provisions, if a creditor's claim or that of the relevant authorized body was not included in the plan, they have the right to submit such claims in the manner prescribed by law at the time the plan is approved. This mechanism is aimed at ensuring equal rights for all creditors, preventing the exclusion of their claims, and ensuring full coverage of the debtor's actual obligations.

Such claims included in the register are not subject to satisfaction on a separate basis, but are satisfied on the basis of the general conditions provided for in the natural person's debt restructuring plan, that is, using mechanisms and proportions that apply equally to all creditors.

See also: International Commentary, p. 798

Article 214. Amendments to the Debt Restructuring Plan of a Natural Person and Extension of the Deadline for the Implementation of this Plan at the Initiative of the Natural Person Debtor

A debtor who is a natural person has the right to send the financial manager proposals for amendments to the debt restructuring plan for his debts.

Within fifteen days from the date of receipt by the financial manager of a proposal to amend the natural person's debt restructuring plan, this plan with the amendments made to it must be sent to creditors and the relevant authorized body.

A meeting of creditors to consider the issue of approving changes made to the debt restructuring plan of a natural person shall be convened by the financial manager within one month from the date of sending the said plan with the changes made to it to creditors and the relevant authorized body.

Based on the review of the changes made to the natural person's debt restructuring plan, the creditors' meeting makes a decision to approve or reject these changes.

Changes made to a natural person's debt restructuring plan must be approved by a creditors' meeting by a majority vote of the total number of votes of creditors entitled to vote.

Changes made to a natural person's debt restructuring plan are considered by the court.

Based on the review of the changes made to the natural person's debt restructuring plan, the court makes one of the following decisions:

on approval of changes made to this plan, if the changes are approved by the meeting of creditors;

on refusal to approve changes made to the plan.

The court decisions provided for in part seven of this article may be appealed (contested).

The court, at the request of a natural person, may extend the deadline for the implementation of the natural person's debt restructuring plan if the extension of the deadline is approved by the creditors' meeting.

The court may extend the period for implementing a natural person's debt restructuring plan for a period of no more than six months without the approval of the creditors' meeting if it is proven that implementing the debt restructuring plan within the period specified therein proved impossible.

A court decision to extend the deadline for implementing a natural person's debt restructuring plan may be appealed (contested).

The commented article establishes the procedure for making changes to the debt restructuring plan at the initiative of the natural person debtor, their consideration by the meeting of creditors and the court, as well as, in certain cases, the procedure for extending the deadline for the implementation of this plan.

1. This provision legally enshrines the right of a natural person debtor to initiate the introduction of appropriate changes to the restructuring plan approved by the court.

According to the rule, if there are material changes in the debtor's financial position, income, or property status that affect the plan's implementation, the debtor is required to submit a proposal to amend the plan not directly to creditors, but to a financial manager with special powers. This procedure ensures that proposals for amendments are officially recorded, fully examined for legal and economic reasons, and subsequently forwarded to creditors and the authorized body in accordance with the procedure established by law.

The financial manager's obligation to send such proposals to creditors within a specified timeframe from the date of their receipt guarantees a lawful and transparent consideration of the amendments. This provision thus ensures a balance between the debtor's initiative, the interests of creditors, and judicial review during the implementation of the restructuring plan, facilitating its fair and justified updating.

2. According to the provisions established by part two of the commented article, the financial manager is obligated to formally review within the specified timeframe and communicate to the relevant entities a natural person's proposal to amend the restructuring plan. According to the rule, the financial manager must, within fifteen days of receiving the debtor's proposal, send the amended plan, along with the proposed amendments, to the creditors and the relevant authorized body.

This procedure is aimed at ensuring timely, complete, and objective decisions by creditors on amendments. This responsibility of the financial manager is an important element of their coordinating and oversight powers during the implementation of the restructuring plan, ensuring that all participants are informed and incorporating the issue of plan amendments into the legal review process.

3. The provisions of this rule establish the legal procedure for the process of approving changes made to a natural person's debt restructuring plan and define the official decision-making mechanism with the participation of creditors.

According to the rule, the financial manager is obligated to convene a creditors' meeting within one month of the date the documents, along with amendments to the plan based on proposals received from the debtor, are sent to the creditors and the relevant authorized body. This one-month period is set as the minimum period necessary for the effective and fair conduct of the process from a legal, economic, and practical perspective.

This procedure provides creditors with the opportunity to fully discuss the amendments and make an informed decision, and through the financial manager's oversight and coordination functions, ensures the legality of the process. Thus, the regulation guarantees the proper and stable implementation of the restructuring plan, the protection of creditors' interests, and legal certainty.

4. This provision defines the mechanism for the creditors' meeting to review amendments to the restructuring plan and make a decision on them. According to this rule, the creditors' meeting reviews the amendments proposed in the plan and makes a formal decision to approve or reject them. In other words, following the review, the creditors' meeting chooses one of two options: approval—if the

amendments are deemed legal and economically acceptable to creditors, they are included in the plan and implemented as part of the restructuring process; or rejection—if it is determined that the amendments conflict with the interests of creditors or could jeopardize the debtor's financial stability, they may be rejected.

This process ensures fair participation by creditors, ensures that changes affecting the plan's implementation are consistent with the personal and financial interests of the participants, and ensures that decisions are made in a lawful and controlled manner. Thus, the regulation ensures transparent and stable implementation of the restructuring plan, protects creditors' interests, and provides legal certainty to the decision-making process.

5. Part five of this article establishes the legal criteria for determining the will of creditors when adopting amendments to a natural person's debt restructuring plan. According to this rule, proposed amendments to the plan are considered accepted if they are approved by a majority of the total number of votes of creditors entitled to vote at the creditors' meeting.

Voting creditors are creditors entitled to vote on the restructuring plan and participate in the meeting. Their vote is the primary criterion for approving or rejecting amendments to the plan. The total number of votes is the sum of the votes of all creditors entitled to vote at the meeting, counting only creditors who participate in the meeting and vote. For amendments to be adopted by a majority vote, more than half of the creditors entitled to vote must vote in favor. These requirements ensure equal and fair protection of creditors' interests and ensure that decisions are made on the basis of the positions of all creditors, not just individual creditors.

At the same time, this procedure creates a clear criterion for judicial review, allowing the court to assess the legitimacy of creditors' positions. As a result, the implementation of the restructuring plan ensures legality and a balance of interests among creditors.

6. The provisions of part six of this article establish the legal framework for the court's review of amendments to a natural person's debt restructuring plan and define its purpose. According to this rule, amendments approved or rejected by the creditors' meeting are submitted to the court.

In reviewing these changes for legality and fairness, the court *primarily* ensures legality and official oversight. That is, through its decision, the court verifies whether the changes made to the restructuring plan comply with legal requirements and established procedures. This is the primary guarantee of protecting the legitimate interests of creditors and the debtor.

Secondly, the court provides a legal assessment of the creditors' decisions. Furthermore, decisions made by the creditors' meeting to approve or reject amendments are reviewed by the court for their legal basis and legality, ensuring the fairness and sustainability of these decisions.

Thirdly, the court oversees the effective implementation of the restructuring plan. This oversight ensures the actual implementation of the amendments, the debtor's

fulfillment of its obligations under the terms established by the plan, and the preservation of legal stability for creditors.

Fourthly, the court review process is conducted in a manner consistent with established procedures for all parties. This ensures the legal and controlled conduct of the actions of the financial manager and the debtor, and reduces the likelihood of disputes and disagreements arising from amendments.

Overall, this provision is an important legal mechanism aimed at ensuring the timely and lawful updating of the restructuring plan, maintaining a balance between the debtor's obligations and the interests of creditors, and ensuring the legal stability of the process.

7. Part seven of this article defines the court's authority in reviewing amendments made to a natural person's debt restructuring plan. According to this rule, if the court finds the amendments approved by the creditors' meeting to be lawful, it issues a ruling approving the amendments to the plan. Otherwise, if the amendments were not approved or are found to be inconsistent with legal requirements, the court issues a ruling denying their approval and provides them with a corresponding legal assessment.

8. According to the rule, any party who disagrees with the court's decision, including the debtor or creditor, has the right to appeal it. This right provides them with the opportunity to review the court's decision and protect their rights and legitimate interests. The rule also provides for the prosecutor's right to lodge a protest on the grounds of the interests of the interested party or to protect the general interests of the law.

These procedures ensure the legality and fairness of the judicial process, protect the legal interests of the participants, and strengthen the mechanism for monitoring judicial decisions.

9. This provision establishes that the issue of extending the deadline for implementing a natural person's debt restructuring plan is subject to judicial review. According to this rule, if the restructuring plan has been approved by a creditors' meeting, the natural person has the right to petition the court to extend the deadline for implementing the plan.

The court, in turn, when considering this petition, analyzes the financial situation of the debtor, his income and other circumstances affecting the effective implementation of the plan, and also takes into account the interests of creditors and the legal protection of all participants.

The court may grant this petition and extend the specified deadline. An extension of the procedural deadline by court order provides the debtor with the opportunity to consistently and fairly fulfill its obligations under the terms established by the plan. At the same time, this procedure is aimed at protecting the interests of creditors, taking into account the debtor's financial difficulties, and ensuring the lawful and effective implementation of the restructuring plan.

Overall, the extension of the deadline for the implementation of this restructuring plan through judicial review ensures legal stability, fairness, and balanced protection of the interests of the participants.

10. Part ten of this article establishes the legal and judicial procedure for extending the deadline for implementing a natural person's debt restructuring plan. According to this rule, if a natural person proves their inability to fulfill their debt obligations within the timeframe specified in the plan, the court may extend the timeframe for implementing the restructuring plan by six months on a one-time basis, without the need for approval by a creditors' meeting. In doing so, the court must take into account the debtor's financial difficulties, ensure the protection of creditors' interests, and maintain the legality and stability of the process.

In general, extending the deadline for implementing the plan on legal grounds, taking into account the actual financial capabilities of the debtor, is aimed at maintaining judicial control and ensuring balanced protection of the legal interests of creditors and the debtor.

11. The law explicitly states that a court ruling extending the deadline for a natural person's debt restructuring plan is a procedural document that may be appealed. However, no specific rule is provided for rulings denying an extension.

Despite this, both types of decisions—those extending the deadline and those denying the deadline—have independent procedural significance and are legal acts directly affecting the rights and obligations of the parties. Since these decisions are related to the debtor's financial situation, the degree to which creditors' claims have been satisfied, and the continuation of the proceedings, they should logically and procedurally be classified as appealable decisions.

From this perspective, these decisions can be appealed by the debtor, the creditor, or challenged by the prosecutor in accordance with the procedure established by law. This ensures full judicial review, procedural fairness and effective protection of the rights of the parties.

See also: International Commentary, p. 798.

Article 215. Amendments to the Debt Restructuring Plan of a Natural Person at the Initiative of a Meeting of Creditors

The meeting of creditors has the right to apply to the court with a petition to amend the debt restructuring plan of a natural person in the event of an improvement in the financial situation of the natural person.

The petition for amendments to the debt restructuring plan of a natural person shall indicate:

the possibility of satisfying the demands of creditors included in the debt restructuring plan of a natural person in a shorter period (or) longer than planned compared to this plan;

establishing evidence of improvement in the financial situation of a natural person compared to his financial situation on the date of approval of the natural person's debt restructuring plan;

proposals for amendments to the natural person debt restructuring plan.

The decision of the meeting of creditors to apply to the court with a petition to amend the debt restructuring plan of a natural person is taken by a majority of votes of creditors entitled to vote.

The court notifies the parties to the insolvency case of a natural person of the date for the hearing of the creditors' meeting's petition to amend the natural person's debt restructuring plan. Failure of the notified parties to appear will not prevent the petition from being heard.

Following the review of the creditors' meeting's petition to amend the natural person's debt restructuring plan, the court shall make one of the following determinations:

on approval of changes made to the debt restructuring plan of a natural person;

on refusal to approve changes made to the debt restructuring plan of a natural person.

The court decisions provided for in part five of this article may be appealed (contested).

The commented article establishes the procedure for making changes to a natural person's debt restructuring plan at the initiative of a creditors' meeting in the event of an improvement in the natural person's financial situation, as well as the procedure for their consideration and approval by the court.

1. The provision that, in the event of a natural person's financial situation improving, the creditors' meeting has the right to petition the court to amend the restructuring plan is aimed at ensuring a balance between the debtor and creditors. According to this rule, an improvement in the debtor's financial situation includes such circumstances as an increase in the debtor's income, the acquisition of new assets, increased financial stability, and other similar circumstances.

After establishing an improvement in the debtor's financial situation, the creditors' meeting has the right to assess whether the current plan is adequate to satisfy creditors' claims. If the current plan does not take into account the debtor's updated financial capabilities, the creditors' meeting has the right to petition the court to amend the plan.

After the application is submitted, the court independently assesses the existence of grounds for amending the plan, the fact of improvement of the property situation, and the consequences associated with the interests of creditors.

This rule is aimed at ensuring that the interests of creditors are not diminished, but, on the contrary, to ensure a more complete and fair repayment of the debt due to the improved economic situation of the debtor.

2. This provision establishes mandatory requirements for petitions to amend a natural person's debt restructuring plan. According to this provision, for the court to consider the petition, it must contain the following information.

Firstly, the possibility of satisfying the creditors' claims, that is, the petition submitted to the court must reasonably indicate the possibility of satisfying the creditors' claims in a shorter period of time or in a larger volume compared to the timeframes established by the current plan.

Secondly, evidence of improvement in the financial situation of the debtor, that is, the content of the petition must set out specific and verifiable evidence that the financial situation of the natural person has improved compared to the date of approval of the plan.

Thirdly, proposals for amendments to the natural person's debt restructuring plan, i.e., proposed changes to revise the current restructuring plan, their content and information on how their application will affect the plan, must be set out in the petition in writing.

The information provided allows the court to assess the presence or absence of legal grounds for making changes to the plan, as provided by law.

3. Part three of this article establishes the procedure for a creditors' meeting to consider, by vote, a petition to amend a natural person's debt restructuring plan. According to this provision, creditors with voting rights participate in the creditors' meeting's decision to petition the court to amend a natural person's debt restructuring plan.

For a creditors' meeting decision to be legally and practically binding, a majority of votes is required. Only a decision approved by a majority of votes of creditors participating in the vote is considered adopted. During the decision-making process, the right of every creditor to participate in the vote is ensured on an equal basis.

This procedure is aimed at protecting the interests of creditors and ensuring that a fair decision is made when implementing the restructuring plan, taking into account the financial capabilities of the debtor.

4. According to this rule, the court is obliged to promptly notify the persons participating in the insolvency case of a natural person about the date of consideration of the petition of the meeting of creditors to amend the natural person's debt restructuring plan.

In accordance with this provision, the court notifies parties to the case of the time and place of the court hearing. The primary purpose of this measure is to inform participants about the progress of the proceedings and ensure they are able to effectively exercise their rights in the trial.

Even if the notified parties fail to appear at the court hearing, this does not prevent the court from considering the petition. The court's responsibility is to ensure timely and complete notification of the parties, as well as to ensure the lawful and timely consideration of the petition.

5. Part five of this article defines the judicial decisions made by the court when considering a petition from a creditors' meeting to amend a natural person's debt restructuring plan, as well as their legal consequences. Based on the court's consideration of this petition, one of the following two decisions is made:

The first is a ruling approving the changes made to the natural person's debt restructuring plan. This decision signifies that the court recognizes the changes made to the plan as legal and justified and approves their implementation. Once the court issues its ruling, the changes made to the plan officially come into effect.

The second is a ruling denying approval of the amendments made to a natural person's debt restructuring plan. In this case, the court either does not recognize the amendments as lawful and justified, or finds that they are not in the interests of the creditors, and decides to deny their approval. The court's ruling denying the petition must also be based on the grounds established by law.

6. As stated in part six of this article, parties have the right to appeal the aforementioned decisions made by the court through appellate or cassation proceedings (the prosecutor has the right to lodge a protest). By enshrining this provision, the legislation provides parties with the opportunity to defend their rights and express disagreement with the court's decision in the manner prescribed by law. This is aimed at protecting the interests of the debtor and creditors, as well as ensuring the fairness and legality of court decisions.

Article 216. Implementation of a Natural Person's Debt Restructuring Plan

The debtor, who is a natural person, at the request of the financial manager, provides information on the implementation of the natural person's debt restructuring plan.

No later than one month before the expiration of the period for implementing the debt restructuring plan of a natural person, the financial manager is obliged to prepare a report on the results of implementing the debt restructuring plan of a natural person.

A report on the implementation of the natural person's debt restructuring plan, accompanied by copies of documents confirming the repayment of creditors' claims, is sent to creditors and the relevant authorized body whose claims are included in the natural person's debt restructuring plan, as well as to the court.

If the claims of creditors included in the debt restructuring plan of a natural person are not satisfied on the date of consideration of the report specified in the first part of this article, or the report is not submitted within the time period specified in the first part of this article, the financial manager, creditor or the relevant authorized body shall convene a meeting of creditors.

If the creditors' claims included in the natural person's debt restructuring plan are not satisfied on the date of the report review, the creditors' meeting shall consider the issue of applying to the court with a petition for the early termination of the natural person's debt restructuring procedure and declaring the natural person bankrupt and initiating the procedure for the sale of his property.

The meeting of creditors must be held no later than fourteen days before the expiration of the period for implementing the natural person's debt restructuring plan.

The creditors' meeting's report and/or petition for early termination of a natural person's debt restructuring, declaring the natural person bankrupt, and initiating the sale of their assets, as well as creditors' complaints, are considered at a court hearing. Following the hearing, the court issues one of the following judicial decisions:

determination of the completion of the procedure for restructuring the debt of a natural person in the event of satisfaction of the creditors' claims provided for in the plan and (or) recognition of the creditors' complaints as unfounded;

a decision on the early termination of the debt restructuring procedure of a natural person and the recognition of the natural person as bankrupt and the commencement of the procedure for the sale of his property.

The commented article establishes the procedure and deadline for providing information on the implementation of a natural person's debt restructuring plan, as well as the consequences of failure to comply with this requirement.

1. A natural person debtor is obligated to provide information on the implementation of the natural person's debt restructuring plan upon request by the financial manager. Providing this information in written form may serve as the basis for its comparison, study, recording, and subsequent verification by the financial manager and creditors. The primary purpose of this provision is to enable the financial manager and creditors to exercise precise and transparent control over the debtor's financial condition and the practical implementation of the plan.

By providing information, the insolvency practitioner is able to identify deficiencies in the plan's implementation and, if necessary, take appropriate action. Furthermore, this process ensures transparency for creditors and the insolvency practitioner, allowing them to fully understand the debtor's financial position and the effectiveness of the plan's implementation.

2. Part two of this article establishes the deadline for preparing and submitting a report on the results of the implementation of a natural person's debt restructuring plan. No later than one month before the end of the period for implementing the natural person's debt restructuring plan, the financial manager is required to prepare a report on the results of implementing the natural person's debt restructuring plan. The report is prepared in writing and submitted to the relevant persons, which guarantees the legal fulfillment of the debtor's obligations and the financial manager's exercise of control. Furthermore, preparing the report at least one month before the end of the plan allows the financial manager and creditors to receive timely information on the plan's implementation and take the necessary measures.

The main purpose of this regulation is to ensure control and reporting during the implementation of the restructuring plan. The report allows the financial manager to assess the practical effectiveness of the plan's implementation, determine the debtor's financial position, and determine the extent to which creditors' claims have been satisfied.

3. This regulation establishes the procedure for submitting a report on the implementation of a natural person's debt restructuring plan to creditors included in

the plan, to the relevant authorized body, and to the court, along with copies of documents confirming the satisfaction of creditors' claims. According to the regulation, the report on the implementation of a natural person's debt restructuring plan must be accompanied by documents confirming the satisfaction of creditors' claims. Such documents may generally include bank payment documents (payment orders, bank statements), or, in the case of cash payments, cash orders or acceptance certificates, a certificate confirming full settlement with the creditor, the creditor's written consent confirming the termination or modification of the debtor's obligation, as well as other financial or settlement documents stipulated by law. These documents must precisely confirm the procedure, timeframe, and amount of satisfaction of creditors' claims.

The report and the documents attached to it are sent to creditors included in the natural person's debt restructuring plan, as well as to the relevant authorized body and the court in accordance with the procedure established by law.

The term "relevant authorized body" refers to the authorized state body exercising state oversight in the area of natural person insolvency in accordance with the law. According to Article 29 of the Law, the State Assets Management Agency is designated as the authorized state body. This body, by adopting a report, monitors the implementation of the restructuring plan in accordance with the established procedure.

The specified procedure for sending a report to creditors, the authorized body, and the court ensures effective control over the implementation of the restructuring plan and also creates the opportunity for the court to give a final legal assessment of the case.

4. This provision is aimed at ensuring oversight of the implementation of a natural person's debt restructuring plan and provides an important procedural mechanism to protect creditors' interests. Specifically, if creditors' claims included in a natural person's debt restructuring plan have not been fully satisfied by the report review date, or if a report on the implementation of the natural person's debt restructuring plan has not been submitted within the timeframe established by law, such circumstances indicate improper implementation of the plan.

In this regard, the provision grants the financial manager, naturaan individual creditor, or the relevant authorized body the right to convene a creditors' meeting. This right is exercised to discuss the progress of the plan, provide a legal assessment of the debtor's actions, and determine further procedural steps.

At a meeting of creditors, as a rule, issues can be considered regarding amendments to the natural person's debt restructuring plan, its cancellation, moving the case to the next stage, or the application of other measures provided for by law.

This provision is aimed at ensuring procedural discipline in insolvency proceedings against natural persons, increasing the liability of the financial manager and the debtor and effectively protecting the rights and legitimate interests of creditors.

5. Part five of the commented article provides for an important legal mechanism aimed at ensuring effective control over the implementation of a natural person's debt restructuring plan and protecting the interests of creditors in the event that the creditors' claims included in the restructuring plan have not been satisfied by the date of the report review.

Specifically, if, by the date of the report review, the creditors' claims included in the natural person's debt restructuring plan have not been fully satisfied, this indicates the non-fulfillment or ineffectiveness of the restructuring plan's terms. In such a situation, the law grants the creditors' meeting the authority to consider the early termination of the debt restructuring procedure applicable to the natural person.

At the same time, the meeting of creditors considers the need to apply to the court with a petition to declare a natural person bankrupt and introduce a procedure for the sale of his property.

This provision allows creditors to act not as passive observers, but as active participants in the proceedings. The adoption of the corresponding decision by the creditors' meeting serves as the legal basis for strengthening the debtor's payment discipline, ensuring the implementation of the plan, or, conversely, for moving the insolvency case to the next stage in cases where further implementation of the plan is deemed inappropriate.

Thus, this rule serves as an effective means of protecting the rights and legitimate interests of creditors in cases where the procedure for restructuring the debt of a natural person does not produce the expected result, and also creates grounds for the court to consider the issue of insolvency of a natural person.

6. According to this provision, a creditors' meeting must be held no later than fourteen days before the expiration of the natural person's debt restructuring plan. This requirement is aimed at ensuring the effective and legal conduct of the creditors' meeting.

Establishing such a deadline serves a number of legal and practical purposes. Specifically, it provides creditors with the opportunity to analyze the issues to be discussed at the meeting, review documents, and determine their position in advance. The debtor, the financial manager, and other participants must be promptly notified of the time and place of the meeting. The established deadline also allows creditors and the financial manager to monitor the plan's implementation, assess the extent to which their claims have been satisfied and take appropriate action if necessary.

These provisions are intended to ensure that the decision-making process relating to a natural person's debt restructuring plan is organized in an orderly, fair and efficient manner.

7. Part seven of the commented article establishes important procedural rules for insolvency proceedings against natural persons, as well as the court's mechanism for making a final decision on the natural person's debt restructuring procedure. According to this provision, a report on the implementation of a natural person's debt restructuring plan, a petition from a creditors' meeting for the early termination of

this procedure, a petition for declaring a natural person bankrupt and initiating the sale of their assets, and creditors' complaints are subject to mandatory consideration in court.

This rule stipulates that these matters must be resolved not in a closed or simplified manner, but in an open court hearing, ensuring the procedural rights of the parties involved. During the court hearing, each party involved has the opportunity to express their opinion, present evidence, raise objections, and defend their rights and legitimate interests.

Based on the results of the review of the report, the petition of the creditors' meeting, and the creditors' complaints, the court, based on the circumstances of the case, adopts one of two types of judicial acts.

Firstly, if the court determines that the creditors' claims, as stipulated by the natural person's debt restructuring plan, have been fully satisfied and/or that the creditors' complaints are unfounded, it issues a ruling terminating the natural person's debt restructuring process. This determination signifies the successful completion of the process, the natural person's fulfillment of their obligations, and the absence of the need to proceed to the next stage of the proceedings.

Secondly, if the court finds that the terms of the natural person's debt restructuring plan have not been met, the creditors' claims have not been satisfied, or their complaints are justified, it orders the early termination of the natural person's debt restructuring. Simultaneously, the court orders the natural person to be declared bankrupt and initiates the sale of their assets.

Thus, this provision grants the court the authority to make a final procedural decision based on the factual circumstances of the case, ensuring a fair balance between the interests of the debtor and creditors, and also helps to ensure legal certainty in the consideration of cases of insolvency of natural persons.

See also: International Commentary, p. 798.

Article 217. Early Termination of the Debt Restructuring Procedure Of A Natural Person

The court shall terminate the debt restructuring procedure of a natural person early in the following cases:

the presence of false information in the plan and documents attached to it;

failure of a natural person to fulfill the obligation to notify creditors of significant changes in the property status in the manner prescribed by the plan, if there are complaints (applications) from the creditor or the relevant authorized body;

failure of a natural person to fulfill obligations to a creditor or the relevant authorized body that are included in the plan.

In the cases provided for in the first part of this article, the creditor or the relevant authorized body has the right to apply to the court for early termination of the debt restructuring procedure of a natural person.

An application from a creditor or the relevant authorized body for early termination of the debt restructuring procedure of a natural person must be accompanied by evidence confirming that copies of this application have been sent to the persons participating in the insolvency case.

An application from a creditor or the relevant authorized body for early termination of the debt restructuring procedure of a natural person shall be considered by the court within ten days from the date of receipt of this application.

If, when considering a complaint (application) from a creditor or the relevant authorized body for the early termination of the debt restructuring procedure of a natural person, it is established that the natural person has failed to fulfill his obligations to the creditor or the relevant authorized body in accordance with the terms of the debt restructuring plan of the natural person, the court makes a decision on the early termination of the debt restructuring procedure of the natural person and the recognition of the natural person as bankrupt and the commencement of the procedure for the sale of his property.

The commented article stipulates that the court may terminate a natural person's debt restructuring process early in cases of false information, failure to notify creditors, or failure to fulfill obligations under the plan. In this case, the natural person may be declared bankrupt, and their assets may be subject to foreclosure proceedings.

1. This provision serves as an important guarantee for ensuring the fair, transparent, and conscientious implementation of the natural person debt restructuring procedure. It establishes the following legal grounds, granting the court the right to terminate this procedure before the expiration of the established period.

Firstly, the presence of inaccurate, false, or misleading information in a natural person's debt restructuring plan or accompanying documents may lead to the unjustified continuation of legal proceedings and the formation of an erroneous impression among creditors regarding the debtor's actual financial situation. Therefore, such actions are considered to be bad faith behavior on the part of the debtor and constitute an independent and sufficient legal basis for the early termination of the proceedings.

Secondly, if a creditor or the relevant authorized body files a complaint (application), and the natural person fails to fulfill the plan's obligation to notify creditors of material changes in their financial situation, this indicates a violation of the principle of transparency. Concealing such information limits creditors' ability to exercise their rights in a timely manner and may serve as grounds for the court to conclude that further proceedings are inadvisable.

Thirdly, a natural person's failure to fulfill the obligations included in the plan, including obligations to make payments, submit reports, or other obligations to the creditor or the relevant authorized body, constitutes a failure to implement the restructuring plan. This means that the goals of the debt restructuring procedure have not been achieved and gives the court the right to terminate it early.

In general, this regulation is aimed at preventing unfair use or abuse of the procedure for restructuring a natural person's debt, at reliably protecting the rights and legitimate interests of creditors, and at ensuring the principles of legality and procedural fairness in the consideration of insolvency cases.

2. This provision establishes an important procedural mechanism aimed at ensuring effective judicial review of a natural person's debt restructuring process. According to it, if circumstances specified in part one of this article are discovered – that is, a gross or systematic violation by a natural person of the terms of the restructuring plan, the submission of false information, failure to fulfill obligations, or other circumstances causing significant harm to the interests of creditors—the creditor or the relevant authorized body has the right to appeal to the court.

This right allows the creditor or authorized body to actively influence the situation by filing a petition rather than remain a passive observer of the debtor's unfair or ineffective actions. By filing a petition, they have the right to justify the inadvisability of continuing the proceedings and present evidence of non-compliance with the plan or violation of legal requirements.

When considering such an appeal, the court evaluates the case materials, the explanations of the debtor and the financial manager, the opinions of creditors, as well as other evidence.

3. Part three of the commented article is aimed at ensuring strict adherence to procedural requirements when filing a petition to the court for the early termination of a natural person's debt restructuring. According to this provision, the petition filed by the creditor or the relevant authorized body must be accompanied by proof that copies of the petition have been sent to all parties involved in the insolvency case. This requirement serves to ensure the principles of procedural equality and adversarial proceedings. Furthermore, parties to the case, including the debtor, the financial manager, and other creditors, must be notified in advance of the claims filed with the court, have the opportunity to review the petition, and prepare their objections or explanations.

Postal receipts, electronic confirmations of document submission through the e-court system, or other official documents permitted by law are generally accepted as proof of submission of copies of the application. The presence of such evidence confirms that the application has been filed in accordance with established procedural requirements.

4. This rule establishes the timeframe for the court to consider an application from a creditor or the relevant authorized body for the early termination of a natural person's debt restructuring. According to it, the application must be considered within ten days of its receipt by the court. This rule is aimed at ensuring procedural efficiency and effectiveness. A prompt review of the application allows the court to effectively monitor the natural person's financial situation and ensure the interests of creditors are respected, and also ensures that all parties to the case have the opportunity to promptly protect their rights and legitimate interests.

However, the established ten-day period for considering an application for early termination of a natural person's debt restructuring may be extended in certain cases if the court finds there are valid grounds for doing so. For example, if additional verification of the circumstances stated in the application is required, if additional time is needed to properly notify the parties to the case and ensure their right to defense, or if delays arise related to the submission of documents or the determination of the natural person's financial status, an extension of this procedural period is not excluded.

When deciding to extend the deadline, the court must consider the principles of procedural fairness, as well as the need to protect the rights and legitimate interests of all parties to the case. The extension of the deadline is formalized by a corresponding court order, of which all parties to the proceedings are notified.

5. Part five of the commented article provides for an important legal mechanism applied by the court when considering a complaint (application) from a creditor or the relevant authorized body for the early termination of the debt restructuring procedure of a natural person.

If, during the course of the case, the court determines that a natural person has failed to fulfill the obligations assumed under the restructuring plan, such a circumstance significantly affects the interests of creditors and indicates that the objectives of the restructuring process have not been achieved. In this case, the court, using the mechanisms provided by law, orders the early termination of the process.

Furthermore, the court may decide to declare a natural person bankrupt and initiate a property sale procedure. This process is aimed at protecting the rights of creditors and enforcing effective legal consequences for the debtor's dishonest actions.

This provision also ensures procedural fairness: parties to the case, including creditors, the relevant authorized body, and the financial manager, are given the opportunity to defend their rights in court. Court decisions must be lawful and justified, and preclude the possibility of abuse of the debt restructuring procedure.

Thus, this provision is aimed at maintaining a legal balance between the debtor and creditors, ensuring effective judicial control and compliance with the principle of legality when considering insolvency cases.

See also: International Commentary, p. 798.

Article 218. Declaring a Natural Person Bankrupt and Commencing the Sale of His Property

The court makes a decision to declare a natural person bankrupt and apply the procedure for selling his property if:

a natural person, without good reason, failed to fulfill an obligation imposed by the court in accordance with the second part of Article 200 of this Law;

the debt restructuring plan of a natural person has not been submitted within the time period established in Article 207 of this Law;

The court refused to approve the debt restructuring plan of a natural person.

The bankruptcy declaration of a natural person and the sale of their assets are effective for a period of no more than six months. If necessary, this period may be extended for a period of no more than three months at the request of the parties to the insolvency proceedings or at the court's initiative.

If the creditors' meeting does not nominate a candidate for a financial manager for a natural person to conduct the procedure for selling his property, the court appoints the financial manager who conducted the procedure for restructuring the natural person's debt.

In the event of the commencement of the procedure for the sale of a natural person's property, the court has the right to issue a ruling on the temporary restriction of the natural person's right to leave the territory of the Republic of Uzbekistan.

The right of a natural person to leave the territory of the Republic of Uzbekistan is restricted until the day of the issuance of a ruling on the completion or termination of the procedure for declaring a natural person bankrupt and the sale of his property, as well as on the approval of a settlement agreement.

If there is a valid reason for which a natural person must leave the territory of the Republic of Uzbekistan, at the request of the natural person and taking into account the opinions of creditors and the financial manager, the court may early cancel the decision on the temporary restriction of the right of a natural person to leave the territory of the Republic of Uzbekistan.

Copies of decisions on the establishment of a temporary restriction on the right of a natural person to leave the territory of the Republic of Uzbekistan and on its cancellation are sent to the natural person and the Border troops of the State security service of the Republic of Uzbekistan.

When a natural person is declared bankrupt and the sale of their assets is initiated, the claims of creditors and the relevant authorized body are subject to review in accordance with the procedure established by this Law. A creditor has the right to appeal to the court if, for valid reasons, they fail to submit their claims for inclusion in the register of creditors' claims within the prescribed time limit, disagree with the financial manager's failure to include them in the register of creditors' claims, or disagree with the order of satisfaction of the register's claims.

Based on a request from a financial manager at the beginning of the procedure for declaring a natural person bankrupt and selling his property, credit institutions are required to provide information on existing deposits, accounts and funds, as well as other property and on the lease agreement for a safe deposit box (safe) of a natural person declared insolvent.

The commented article defines the grounds and terms for recognizing a natural person as bankrupt and introducing the procedure for selling his property, the legal consequences of introducing this procedure, the possibility of restricting a natural person's right to leave the country, the procedure for considering creditors' claims and other related issues.

1. The most severe legal consequence applied in cases where the debt restructuring procedure for a natural person has failed, or the debtor has not properly fulfilled the terms of the restructuring plan, is the recognition of the natural person as bankrupt and the introduction of a procedure for the sale of his property.

This rule provides comprehensive legal grounds upon which the court has the right to decide to declare a natural person bankrupt and initiate the procedure for the sale of his property.

Firstly, if a natural person fails, without good reason, to fulfill the obligations imposed on them in accordance with Part Two of Article 200 of this Law, the court has the right to consider declaring them bankrupt. This situation may manifest itself in the debtor's failure to cooperate with the court, failure to provide information and documents necessary for the case, or failure to comply with other requirements established by law. This basis allows for a legal assessment of the debtor's bad faith behavior as a party to the proceedings.

Secondly, if a natural person's debt restructuring plan is not submitted within the timeframe established by Article 207 of the Law, the court may interpret such inaction as the debtor's refusal to restore their solvency or as the lack of a realistic opportunity to do so. In this case, the law assumes that further restructuring is inappropriate and provides for the possibility of proceeding directly to bankruptcy proceedings and asset sale.

Thirdly, a court's refusal to approve a debt restructuring plan is a separate ground for declaring a natural person bankrupt and initiating asset sale proceedings. Typically, such a refusal is due to the plan's non-compliance with legal requirements, the impossibility of its actual implementation, or insufficient protection of creditors' interests.

Overall, this provision ensures consistency and interconnectedness in the procedures applied in natural person insolvency proceedings. By declaring a natural person bankrupt, the court effectively acknowledges that debt restructuring options have proven ineffective in practice. This, on the one hand, is aimed at protecting the legitimate interests of creditors and, on the other, prevents unreasonable delays in insolvency proceedings.

2. Part two of the commented article establishes that the procedure for declaring a natural person bankrupt and realizing his property is limited by certain time limits and is aimed at preventing its unjustified delay.

According to the law, the procedure for declaring a natural person bankrupt and realizing their assets is generally introduced for a period of no more than six months. This period ensures the reasonable and effective conduct of the insolvency proceedings, as well as the timely satisfaction of creditors' claims.

Within this six-month period, the main procedural actions related to the identification of the natural person debtor's assets, their valuation, sale, and distribution of the proceeds must be completed in the order of priority established by

law. Thus, the court and the financial manager are obligated to perform the functions stipulated by law within the established timeframes.

However, the law provides for the possibility of extending this procedure in exceptional cases. In circumstances such as the complexity of the case, the significant size of the debtor's assets, the incompleteness of the valuation or sale of assets for objective reasons, and other similar circumstances, the procedure may be extended by no more than three months. Such an extension is granted upon a reasoned request from the parties to the insolvency proceedings or at the court's initiative.

The legal significance of this provision lies in its simultaneous provision of clear procedural deadlines and protection of the rights and legitimate interests of the parties to the case. Bankruptcy proceedings and the sale of assets must be completed within the timeframes established by law. Unreasonable delays are prohibited, and extensions are permitted only in cases and to the extent expressly provided by law.

3. This provision establishes an important organizational and legal rule aimed at ensuring the efficient and continuous conduct of the bankruptcy procedure for a natural person and the sale of their assets. According to legal requirements, the issue of appointing a financial manager to conduct the sale of a natural person's assets is generally considered and decided by the creditors' meeting. However, in practice, this possibility may not always be realized. As stipulated by this provision, if the creditors' meeting fails to nominate a specific financial manager to conduct the sale of a natural person's assets, the court, in order to avoid a legal vacuum, has the right to appoint a financial manager independently.

In this case, the court-appointed financial manager is typically the person who previously handled the natural person's debt restructuring. This approach ensures continuity and consistency in the insolvency case, as the financial manager is already familiar with the debtor's financial situation, assets, liabilities and creditors.

This provision, on the one hand, preserves creditors' right to propose a financial manager, and on the other, allows the court to proceed without delay if creditors fail to exercise this right. This prevents delays in the sale of a natural person's assets, damage to creditors' interests and violation of procedural deadlines.

Furthermore, the court's appointment of the previous financial manager increases their level of professional responsibility and accountability, as they are obligated to logically continue previously initiated procedures and be responsible for their outcome. Thus, this provision is aimed at ensuring efficiency, procedural continuity and fairness in insolvency proceedings.

4. Part four of the commented article provides for the possibility of the court applying an interim procedural measure aimed at ensuring the effective conduct of the bankruptcy procedure for a natural person and the sale of their assets. According to this provision, if the sale of a natural person's assets is initiated, the court has the right to issue a ruling temporarily restricting such natural person's right to leave the territory of the Republic of Uzbekistan.

This restriction does not completely deprive a natural person of freedom of movement, but is applied as a temporary and proportionate measure necessary to achieve the goals established by law in the insolvency proceedings. The primary purpose of this measure is to prevent the debtor from evading participation in the property sale process, from failing to comply with the court and the financial manager's orders, and from abusing insolvency-related procedures.

The court's issuance of such a ruling is aimed at ensuring the debtor's participation in the case, creating the necessary conditions for the identification and sale of their assets and protecting the interests of creditors. However, this restriction may only be applied if there are grounds provided by law and is subject to lifting by the court upon completion of the proceedings or if its further application is no longer necessary.

A court ruling temporarily restricting a natural person's right to leave the Republic of Uzbekistan due to the introduction of property sale proceedings is a procedural act affecting the citizen's constitutional rights. Therefore, it may be appealed to a higher court by filing an appeal or protest in cases provided for by law. Thus, this provision represents an important legal mechanism aimed, on the one hand, at reliably protecting the rights of creditors and, on the other, at maintaining a balance between the constitutional rights of a natural person and the interests of the insolvency proceedings.

5. This provision defines the legal nature, scope, and grounds for termination of the temporary restriction on a natural person's right to leave the Republic of Uzbekistan. According to this provision, this restriction remains in effect for the entire period of the bankruptcy procedure and the sale of the natural person's assets and remains in effect until the court issues a ruling on the completion or termination of this procedure.

Furthermore, it is stipulated that if a settlement agreement is concluded between the parties and approved by the court, the restriction on the natural person's right to travel outside the Republic of Uzbekistan will also be lifted. This means that the settlement agreement is recognized as a legal mechanism for the peaceful resolution of the dispute between the debtor and creditors, eliminating the need for further insolvency proceedings.

The binding of this restriction to a specific time period confirms its temporary, exceptional and protective nature. Moreover, the court restricts the debtor's right to travel solely to achieve the legitimate goals of the insolvency proceedings, specifically to ensure the identification, valuation, and sale of the debtor's assets, as well as the satisfaction of creditors' claims. Once these goals are achieved, further maintenance of such a restriction loses its legal basis and is prohibited.

6. This provision provides for the possibility of early lifting of a temporary restriction on a natural person's right to travel outside the Republic of Uzbekistan in exceptional cases. According to this provision, if a natural person's departure from the country is due to objective and valid reasons, the court, upon their reasoned

petition, has the right to lift this restriction before the expiration of the established period.

Within the meaning of this provision, "valid reasons" are defined as circumstances beyond the control of a natural person and related to the need to protect their rights and legitimate interests or to fulfill obligations guaranteed by law. Such reasons may include, in particular, the need to undergo treatment for a serious illness, a serious health condition or the death of a close relative, a business trip abroad, or the fulfillment of work duties that require travel abroad.

Moreover, when deciding this issue, the court is not limited to considering only the natural person's petition but is also required to consider the views of creditors and the financial manager. This requirement is aimed at ensuring a balance of interests among all parties to the insolvency case and serves as a guarantee that lifting the restriction will not harm the interests of creditors.

When considering the early lifting of this restriction, the court assesses whether the natural person's departure will negatively impact the insolvency proceedings, whether it will create obstacles to the identification and sale of assets, and whether there are guarantees that the debtor will continue to comply with the court and the financial manager's orders. Thus, this provision allows for the application of restrictive measures in insolvency cases not as an absolute rule, but as a flexible legal mechanism based on the principles of respect for human rights and fairness.

7. This provision defines the procedure for enforcing court orders temporarily restricting a natural person's right to leave the Republic of Uzbekistan, as well as lifting such restrictions, and establishes guarantees for their implementation. In accordance with this provision, a copy of the court order is given to the natural person and also sent to the Border Troops of the State Security Service to ensure its enforcement.

This requirement is aimed at ensuring the effective enforcement of the restriction and preventing the debtor from leaving the country during the period of the property sale procedure and the satisfaction of creditors' claims within the insolvency case.

At the same time, this provision ensures that natural persons have the opportunity to review the court's decision in a timely and complete manner, thereby protecting their legal rights and interests. Border troops, in turn, use the information received to restrict the natural person's travel or lift any previously imposed restrictions. Thus, this rule represents an important procedural mechanism that ensures a balance between the rights of natural persons and the interests of creditors and the state in insolvency proceedings.

8. This rule establishes the procedure for the full and lawful consideration of creditors' claims and those of the authorized state body during the bankruptcy process for a natural person and the initiation of the sale of their assets. This rule constitutes a mechanism aimed at protecting the rights of all participants in the insolvency process and ensuring its transparency.

This regulation enshrines several key provisions. Specifically, the creditor is required to file its claim within the specified timeframe, and the financial manager must include the corresponding claim in the register of creditor claims.

If a creditor fails to file their claim within the prescribed time limit for valid reasons, they have the right to file a lawsuit. Furthermore, if the financial manager fails to include the creditor's claim in the register of creditor claims, the creditor also has the right to protect their rights by filing a petition. Furthermore, if the creditor disagrees with the order of satisfaction of their claims as specified in the register, they may also exercise their right to protect their rights and legitimate interests in court.

These provisions are aimed at protecting creditors' rights and safeguarding their interests in insolvency proceedings. Based on the submitted application, the court considers the relevant circumstances and ensures that the creditor's claims are defended legally.

9. Part nine of the commented article establishes the procedure for information exchange between credit institutions and the financial manager in the event of the introduction of bankruptcy proceedings against a natural person and the sale of their assets. The purpose of this provision is to ensure the identification of the debtor's assets, their effective management, and the protection of creditors' interests during insolvency proceedings.

From the moment the procedure for declaring a natural person bankrupt and selling his property is introduced, credit institutions are obliged, at the request of the financial manager, to provide the following information: a) information on deposits, bank accounts and funds of a natural person recognized as insolvent; b) information on other property belonging to the natural person, including assets capable of generating income; c) information on the lease agreement for a safe deposit box (deposit box) and on the property stored in such a safe deposit box.

The information provided allows the financial manager to fully and reliably determine the composition of a natural person's assets and ensure their sale or other lawful use within the insolvency proceedings. This mechanism is aimed at protecting the interests of creditors, preventing the illegal concealment or use of the debtor's assets, and ensuring the principles of transparency and accountability in the insolvency case. It should be noted that information is provided solely upon request by the financial manager, and the process of its provision is subject to the legal control of creditors and the court. Credit institutions are not entitled to evade this obligation, as failure to do so will be considered a violation of legal requirements.

In general, this regulation is aimed at ensuring the protection of creditors' interests in insolvency proceedings and clearly defines the rights and obligations of credit institutions and financial managers when providing information about a natural person's property.

See also: International Commentary, p. 799.

Article 219. Sale of Property of a Natural Person

All property of a natural person from the moment of the decision to declare a natural person bankrupt and the sale of his property, identified or acquired after the commencement of this procedure, constitutes the liquidation estate, with the exception of property provided for in Article 52 of the Law of the Republic of Uzbekistan "On the execution of judicial acts and acts of other bodies," and which cannot be subject to collection.

If property that cannot be foreclosed is included in the liquidation estate, at the request of a natural person or other parties to the insolvency case, the court may order that this property be excluded from the liquidation estate. This court order may be appealed (contested).

At the reasoned request of a natural person and other persons participating in the insolvency case, the court has the right to exclude property from the liquidation estate of a natural person that, in accordance with the law, is subject to foreclosure under writs of execution, and the funds received from its sale are not related to the satisfaction of creditors' claims.

The liquidation estate may include the property of a natural person debtor, constituting their share of the common property in accordance with civil and family law. A creditor has the right to demand the allocation of the natural person debtor's share of the common property.

From the date of recognition of the natural person debtor as bankrupt and the commencement of the procedure for the sale of his property:

all rights with respect to the property constituting the liquidation estate, including the right to dispose of it, are exercised only by the financial manager on behalf of the natural person;

Transactions concluded by a natural person (without the participation of a financial manager) with respect to property constituting the liquidation estate are null and void. Creditors' claims under transactions concluded by a natural person personally (without the participation of a financial manager) are not subject to satisfaction from the liquidation estate;

previously imposed restrictions on the property of a natural person and other restrictions on the disposal of the property of a natural person are lifted;

The accrual of penalties (fines, fines) and other financial sanctions, as well as interest on all obligations of a natural person, with the exception of current payments, ceases.

Within three business days of the appointment of a financial manager, a natural person debtor must transfer all property belonging to them, including documents confirming ownership of such property, to the financial manager, with the exception of property that cannot be seized under law. Failure to fulfill this obligation will result in the natural person debtor being held liable in accordance with the law.

The financial manager at the time of sale of property on behalf of a natural person:

manages funds in accounts and deposits of natural persons in banks and other credit institutions;

opens and/or closes accounts of natural persons in banks and other credit institutions;

exercises the right of a participant in a legal entity, which belongs to the debtor—a natural person, including the right to vote at the general meeting of participants;

participates in the consideration in courts of cases concerning the property rights of a natural person, including the transfer or return of a natural person's property, and its recovery from someone else's possession.

From the date of recognition of the debtor—a natural person as bankrupt and the commencement of the procedure for the sale of his property:

Registration of the transfer and encumbrance of a debtor's right to property, including real estate and securities, is carried out only on the basis of an application from the financial manager. Applications submitted by a natural person prior to this date are not subject to execution;

The voluntary transfer of funds or property directly to creditors by a third party for the purpose of fulfilling the obligations of a natural person debtor is not permitted; these funds and property are included in the liquidation estate;

A debtor who is a natural person does not have the right to open bank accounts and deposits in banks and other credit institutions and receive funds from them, except for the cases provided for in part three of Article 206 of this Law.

Banks and other credit institutions are responsible for carrying out operations to dispose of the property of a natural person debtor from the date of commencement of the procedure for declaring a natural person bankrupt and selling his property, or under a power of attorney issued by them to a natural person, under a deposit agreement and (or) a bank account agreement, including a bank card, if banks and other credit institutions have been duly notified of the introduction of a procedure for declaring a natural person bankrupt and selling his property in accordance with legislative acts.

A natural person is required, no later than one business day following the date of the decision to initiate bankruptcy proceedings and the sale of their assets, to transfer all bank cards in their possession (including their PINs) to the manager. No later than one business day following the date of their receipt, the financial manager is required to take steps to suspend transactions with the bank cards received for transferring funds to the natural person debtor's primary account.

The property of a natural person pledged under an agreement concluded to effect settlements under a transaction on participation in shared construction in accordance with the legislation on participation in shared construction of apartment buildings and (or) other real estate objects is taken into account separately, and the right of claim under this transaction is included in the liquidation estate.

The commented article stipulates that, when a natural person is declared bankrupt, the debtor's identified assets, as well as any assets subsequently acquired, form the bankruptcy estate; the authority to manage and sell the assets is transferred

to the financial manager, and the debtor's rights to dispose of their assets are limited in the manner prescribed by law.

1. Part one of this article defines the legal composition of the bankruptcy estate and exclusions from it within the framework of the procedure for declaring a natural person bankrupt and the sale of his property.

The bankruptcy estate includes all assets of a natural person identified from the moment the court declares them bankrupt and initiates property sale proceedings. This includes both assets owned prior to the initiation of the case and assets acquired after the commencement of the bankruptcy proceedings and the sale of their assets. Including all identified assets, as well as assets acquired during the property sale proceedings, in the bankruptcy estate creates an equal legal basis for satisfying creditors' claims.

According to the requirements of the law, the following types of property are not included in the bankruptcy estate as an exception.

Firstly, the assets provided for in Article 52 of the Law of the Republic of Uzbekistan "On the Execution of Judicial Acts and Acts of Other Bodies," namely the property specified in the List of household furnishings and utensils, clothing and other items necessary for the normal life of the debtor and his family, which cannot be subject to collection under enforcement documents, approved by Resolution No. 110 of the Cabinet of Ministers of the Republic of Uzbekistan dated 14 April 2009.

Secondly, other property that cannot be seized in accordance with a court ruling or that is specifically designated by law as non-seizure property. Such property is intended to ensure the social protection of a natural person and prevent their deprivation of the most essential means of subsistence.

Thirdly, property held by the debtor under a lease agreement, goods transferred to the debtor for safekeeping, as well as other property not owned by the debtor; except in cases provided by law, such objects may also include the subject of a pledge.

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53. In accordance with Articles 219 and 230 of the Law, the liquidation estate does not include the property of a debtor who is a natural person, including a debtor who is an individual entrepreneur , which, in accordance with Article 52 of the Law of the Republic of Uzbekistan "On the Execution of Court Orders and Orders of Other Bodies," cannot be subject to foreclosure.

When considering cases of insolvency of natural persons and sole proprietors, courts should take into account the need to ensure a fair balance between the property interests of creditors and the constitutional, including personal, rights of the debtor.

These exceptions ensure that the legal rights of a natural person are respected and guarantee a minimum level of property protection, preventing the natural person from being deprived of property of significant social and economic significance during insolvency proceedings.

2. This provision establishes an important procedural guarantee aimed at preserving legally protected assets during the bankruptcy process and the sale of a natural person's assets. According to this guarantee, if assets that cannot be legally seized (e.g., a sole residence, essential items for everyday life, or social welfare funds) are included in the bankruptcy estate due to an error or incorrect valuation, such inclusion is not recognized as legal.

In this case, both the natural person and other parties to the insolvency proceedings (creditors, the financial manager, or the relevant authorized body) have the right to file a petition with the court. After reviewing such a petition, the court verifies the legal status of the property, determines whether it is exempt from foreclosure under the law, and, if warranted, issues a ruling excluding the property from the bankruptcy estate.

The legal consequence of such a court ruling is the exclusion of the relevant property from the assets subject to sale, leaving it in the possession of the natural person debtor. This serves to ensure the debtor's basic social and everyday needs, as well as to protect their human dignity.

At the same time, this provision provides for the possibility of appealing the court's ruling by filing an appeal or a protest by the interested party. This provision is aimed at ensuring judicial review and upholding the principle of procedural fairness, giving parties to the case the opportunity to verify the legality and validity of the court's findings in a higher court.

3. Part three of this article provides a special rule aimed at clearly defining the legal status of property subject to foreclosure under writs of execution during the bankruptcy proceedings and the sale of a natural person's assets. According to this rule, if a natural person or other parties to the insolvency case submit a reasoned petition, the court has the right to exclude from the bankruptcy estate, by its ruling, the property subject to foreclosure in accordance with legal requirements.

To apply this rule, the petition must be properly substantiated, meaning it must be supported by evidence that the relevant property was seized based on writs of execution and that such seizure occurred prior to the initiation of insolvency proceedings or in accordance with the procedure established by law. After reviewing these circumstances, the court issues an appropriate ruling if it concludes that including the property in question in the bankruptcy estate is unlawful.

The significance of this provision is that property excluded from the bankruptcy estate by the court cannot be considered as a source of satisfaction of creditors' claims in insolvency proceedings. Moreover, if such property has already been sold, the proceeds from its sale are also not eligible for use in satisfying creditors' claims.

This means that these funds are not included in the general settlements made in the insolvency proceedings.

This rule is aimed at clearly delineating the powers and property sources between enforcement proceedings and insolvency proceedings, as well as preventing conflict between the two different collection mechanisms. On the one hand, it ensures the legality of collections based on enforcement documents, and on the other, it prevents the unjustified violation of the rights and legitimate interests of creditors during insolvency proceedings.

4. This provision is aimed at regulating the legal fate of a debtor's share in joint property during the bankruptcy proceedings against a natural person and the sale of their assets. According to this provision, a natural person debtor's share in joint property, owned by them under civil and family law, may be included in the bankruptcy estate.

When applying this rule, the concept of joint property is primarily determined based on civil law and legislation governing marital and family relations. Specifically, property acquired during marriage, unless otherwise provided by a prenuptial agreement, is considered the joint property of the spouses. During insolvency proceedings, only the share belonging to the natural person debtor may be included in the bankruptcy estate, while the remaining portion is retained by the other owner as their legal property.

This provision grants creditors the right to demand the allocation of the debtor's share of the joint property. Such a claim is typically considered in court. To satisfy it, the court comprehensively analyzes the legal status of the property, its source of acquisition, the ratio of shares, the presence or absence of a prenuptial agreement, and other legal agreements between the parties. Based on this, the court determines the share actually belonging to the debtor and assesses the possibility of allocating it without violating the rights of other owners.

Furthermore, this provision is aimed at preventing debtors from concealing assets by using the common property regime to evade insolvency proceedings. Granting creditors the right to demand the allocation of a share promotes transparency of the debtor's financial position, the identification of assets, and their subsequent legal disposal.

5. This provision is aimed at defining the legal status of the debtor and the consequences arising in property relations from the moment a natural person is declared bankrupt and the commencement of the sale of their assets. This date is an important legal fact in the insolvency process, as it is from this moment that special restrictions and rules stipulated by law begin to apply to the natural person debtor.

5.1. In accordance with the procedure for exercising rights with respect to property included in the bankruptcy estate, from the moment a natural person is declared bankrupt and the sale of their assets is initiated, all rights to the property constituting the bankruptcy estate, including the powers to own, use, and dispose of it, are exercised on behalf of the natural person exclusively by the financial manager.

According to this provision, the natural person is deprived of the right to independently make decisions with respect to the property included in the bankruptcy estate, enter into transactions, sell the property, donate it, pledge it, or otherwise dispose of it. The corresponding powers are, by law, transferred to the financial manager, who exercises them on behalf of the debtor, but with due regard for the interests of creditors.

This procedure defines the central role of the financial manager in the insolvency process. The financial manager is responsible for the safety of the bankruptcy estate, its complete and accurate formation, the valuation and sale of assets, and the distribution of proceeds to satisfy creditors' claims in the order established by law. At the same time, the financial manager is obligated to prevent abuse of their authority, to avoid damage to property, and to conduct all actions under judicial supervision.

5.2. Transactions in relation to property constituting a bankruptcy estate, concluded by a natural person without the participation of a financial manager, are considered null and void (invalid) by virtue of law and do not require recognition as invalid by a separate court decision.

This provision implies that a natural person does not have the authority to independently enter into transactions with respect to property included in the bankruptcy estate. Such authority is granted exclusively to the financial manager, and any actions regarding the disposal of such property must be carried out only with the financial manager's participation and under their control. Otherwise, transactions concluded in violation of this requirement will have no legal consequences.

Furthermore, the legal status of creditors' claims arising from transactions concluded by a natural person personally, without the involvement of a financial manager, is clearly defined. Such claims are not subject to satisfaction from the bankruptcy estate, meaning they are not included in the general register of creditors' claims. This means that these creditors are not entitled to have their claims satisfied in the insolvency proceedings, either by priority or on any other preferential basis.

This rule, on the one hand, ensures fair and equal treatment of all creditors, and on the other hand, is aimed at preventing the risk of illegal alienation, concealment of property, or the provision of advantages to certain persons by the debtor after the commencement of insolvency proceedings, which could cause harm to the interests of creditors.

5.3. In accordance with the established rule, from the moment a natural person is declared bankrupt and the procedure for the sale of his property is initiated, all previously imposed prohibitions and restrictions on the debtor's property, including other restrictions on the disposal of this property, are lifted.

This rule is aimed at ensuring the efficient implementation of the property sale procedure for a natural person. This is because, from the moment the said procedure is introduced, the property is included in the bankruptcy estate, and the authority to manage and sell this property is transferred to the financial manager. If the previously

imposed prohibitions and restrictions remained, this would artificially complicate the process of selling the property, its valuation, and satisfying creditors' claims.

According to this provision, restrictions subject to lifting include: prohibitions imposed as part of enforcement proceedings; measures to limit the alienation of property; prohibitions on the disposal of property not related to the pledge; and other similar restrictions. It should be emphasized that the rights of creditors to claims secured by the pledge are preserved and taken into account in accordance with the procedure established by law.

5.4. This rule establishes the procedure for terminating the accrual of debt and financial penalties on obligations from the moment a natural person is declared bankrupt, and the sale of their assets is initiated. According to this rule, the accrual of penalties (fines, late fees) and other financial penalties, as well as interest on all of the natural person's obligations, ceases. However, current payments due in accordance with the procedure established by law (e.g., social taxes owed by a natural person, utility bills, and payments made on the basis of writs of execution) are excluded from this rule. Such payments continue to accrue and are subject to timely execution.

This provision, along with protecting creditors' interests in insolvency proceedings, aims to stabilize the financial burden of natural person debtors and ensure the effective distribution of their assets. The cessation of penalties and interest accrual is an important legal mechanism that helps reduce disputes between creditors and the debtor and ensures the fair satisfaction of creditors' claims from the bankruptcy estate.

6. From the moment a financial manager is appointed, the natural person debtor is obligated to transfer all property in their possession to the financial manager within three business days. This obligation includes the transfer of all property, i.e., all assets included in the insolvency proceedings and intended to satisfy creditors' claims, as well as documents confirming property rights—all documents that constitute the legal basis for ownership of the property (e.g., title deeds, contracts, sales deeds, and other documents).

However, this obligation excludes property that, according to law, cannot be seized (for example, personal items of social significance, property needed by family members, and other items deemed exempt by law). A natural person debtor who fails to fulfill this obligation is liable in accordance with the law. However, liability does not relieve the debtor of the obligation to transfer the property; such transfer may be enforced by a court decision.

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41. The natural person debtor, within three working days from the date of appointment of the financial manager, must transfer all property belonging to him, including documents confirming the right of ownership of this property to the financial manager, with the exception of property that, according to the law, cannot be subject to foreclosure (part six of Article 219 of the Law).

It has been established that the application of the debtor's manager of the specified content must be considered by the court no later than the day following the day of its receipt by the court, without notifying the persons participating in the case, with the issuance of a corresponding determination based on the results.

The execution of a court decision is carried out by the relevant division of the Bureau of Compulsory Enforcement under the General Prosecutor's Office of the Republic of Uzbekistan on the basis of a writ of execution issued by the court.

7. The financial manager, on behalf of the debtor, is granted a number of important powers in the management and sale of assets. These powers are established to ensure the effective protection of the debtor's interests and the rights of creditors.

Firstly, a financial manager oversees the funds held in a natural person's accounts and deposits with banks and other credit institutions and coordinates their use. This activity is aimed at ensuring the satisfaction of creditors' claims and the orderly distribution of assets.

Secondly, the financial manager has the right to open and close bank accounts on behalf of a natural person. This ensures full control over the debtor's assets during insolvency proceedings and facilitates the fair distribution of funds.

Thirdly, if the debtor is a participant (founder) of a legal entity, the financial manager exercises their rights on behalf of the natural person, including the right to vote at the general meeting of participants. This ensures the protection of the debtor's rights within the legal entity and prevents their violation.

Fourth, the financial manager protects the property rights of a natural person. Specifically, they participate in court cases related to the debtor's property rights, including disputes over the transfer or return of property, as well as cases involving the recovery of property from someone else's illegal possession (vindication). Participation in court proceedings means exercising procedural rights and obligations, including filing claims, maintaining or challenging claims, presenting evidence, filing motions, providing explanations, and appealing court decisions and rulings.

In general, the powers of the financial manager are aimed at the effective management of the property of a natural person, the protection of the rights of creditors, and ensuring the fair and legal conduct of the insolvency procedure.

8. Part eight of the commented article aims to strictly regulate property relations from the moment a natural person debtor is declared bankrupt, and the procedure for the sale of their assets is initiated. This date is the starting point, entailing certain legal consequences.

8.1. State registration of actions related to the transfer of ownership of property belonging to a debtor who is a natural person, including real estate and securities, or the transfer of corresponding rights to another person, may be carried out exclusively on the basis of an application from the financial manager. This rule means that during insolvency proceedings, the natural person's right to independently dispose of their property is limited. Since, from the moment the property sale procedure is initiated, all of the debtor's assets form the bankruptcy estate and are the sole source of satisfaction of creditors' claims, any legally significant actions regarding such property must be carried out by a single authorized person—the financial manager—under court supervision.

Of particular legal significance is the provision that applications submitted by a natural person prior to the specified date are not subject to execution. This approach is aimed at preventing the concealment of assets, their alienation at an undervalued price, or their transfer to certain natural persons.

8.2. Direct voluntary provision of funds or property by third parties to creditors for the purpose of fulfilling the obligations of a debtor who is a natural person is prohibited. This restriction is necessary to ensure the principles of equality and proportionality among creditors. Allowing certain creditors to obtain satisfaction of their claims directly through third parties may infringe on the rights and legitimate interests of other creditors, as well as violate the statutory order of satisfaction of claims.

According to the rule, funds or property transferred by a third party to fulfill the debtor's obligations are subject to inclusion in the debtor's bankruptcy estate. This ensures that these assets are distributed taking into account the interests of all creditors in the order and priority established by law. Moreover, the transfer of funds or property by a third party is not considered a direct payment of the debtor's debt to individual creditors, but rather an action aimed at increasing the bankruptcy estate.

8.3. From the moment a natural person debtor is declared bankrupt and the liquidation of their assets is initiated, the debtor's right to conduct financial transactions is restricted. Furthermore, the natural person debtor is prohibited from opening bank accounts and deposits with banks and other credit institutions, or from withdrawing funds from existing accounts and deposits. This restriction is introduced to prevent the debtor from independently disposing of financial assets and to eliminate the risk of asset concealment or asset transfer to the detriment of creditors.

This restriction also applies to banks and other credit institutions. They are prohibited from opening new accounts or deposits in the name of a natural person debtor, nor from making cash advances to them. All financial transactions must be conducted through a financial manager in accordance with the procedure established by law.

However, exceptions are provided for the cases specified in part four of Article 206 of this Law. In such cases, a natural person debtor may be permitted to use certain types of funds or conduct certain financial transactions. These exceptions cover

situations related to meeting the debtor's daily needs, receiving social benefits and using funds specifically provided for by law.

9. This provision is aimed at establishing the legal liability of banks and other credit institutions following the initiation of bankruptcy proceedings against a natural person and the sale of their assets. According to this provision, if banks and other credit institutions have been duly notified in accordance with the procedure established by law of the initiation of bankruptcy proceedings against a natural person and the sale of their assets, they shall bear liability for the legal consequences associated with the specified date. Moreover, from the moment the procedure for declaring a natural person debtorbankrupt and the sale of their assets is initiated, any transactions related to the disposal of the debtor's assets are subject to restrictions in accordance with legal requirements. Such transactions include, in particular, actions performed on the basis of powers of attorney previously issued by banks, bank deposit agreements and/or bank account agreements, as well as transactions carried out using bank cards.

Specific liability provisions for banks and other credit institutions are aimed at ensuring their active participation in insolvency proceedings. If a bank or other credit institution was officially and promptly notified of the initiation of the relevant procedure but nevertheless permitted the disposal of the debtor's property in violation of the established restrictions, they are liable for the legal consequences arising from such actions in accordance with the procedure established by law.

10. Part ten of this article is aimed at ensuring full control over financial transactions carried out using bank cards after a natural person has been declared bankrupt and the liquidation of their assets has been initiated. According to this provision, no later than one business day after the decision to declare a natural person bankrupt and initiate the liquidation of their assets is made, the debtor is required to transfer all bank cards in their possession, along with the corresponding PIN codes, to the financial manager. This obligation is established to prevent the debtor from secretly withdrawing funds through bank cards, transferring them to third parties, or otherwise disposing of them in violation of the insolvency procedure. Timely transfer of bank cards allows the financial manager to ensure full control over the debtor's cash flow.

Moreover, this regulation clearly defines the responsibilities of the financial manager. According to it, the financial manager is required, no later than one business day from the date of receipt of bank cards, to take measures to suspend all transactions related to the use of these cards. The main purpose of such actions is to ensure the transfer of funds currently on the bank cards or subsequently received to them to the debtor's special account (a natural person).

11. This provision defines the procedure for accounting and control in the insolvency procedure of the financial relations of a natural person related to his participation in shared construction of apartment buildings and other real estate.

If a natural person has entered into a shared construction agreement and pledged property, cash, or other assets to secure the obligations under such agreement, such property is accounted for separately. This means that the assets pledged under the agreement are considered separately from the general bankruptcy estate, and their distribution is carried out in accordance with the procedure established by law. At the same time, the debtor's right of claim under this agreement is included in the bankruptcy estate, meaning it is considered an asset from which the legitimate claims of creditors can be satisfied. This procedure ensures a fair distribution among creditors and also determines the property and financial interests arising from the relevant agreement.

Even when assets are separately recorded, the legal consequences of the contract and the debtor's rights related to participation in shared construction remain intact. These assets and the claims arising from them are distributed during insolvency proceedings to proportionally satisfy the interests of creditors.

This mechanism ensures the preservation of the rights of the debtor participating in shared construction and also prevents the illegal disposal of property during insolvency proceedings.

See also: International Commentary, p. 799.

Article 220. Peculiarities of the Sale of Property of a Natural Person

Within one month from the date of the inventory and valuation of a natural person's property, the financial manager is obligated to submit to the court the procedure and terms for the sale of the natural person's property, indicating the starting price of the property. The procedure, terms, and term for the sale of the natural person's property are approved by the court and must comply with the rules for the sale of the debtor's property, established by Articles 126, 127, and 151 of this Law. A court ruling shall be issued approving the procedure, terms, and term for the sale of the natural person's property and establishing the starting price of the property. This ruling may be appealed (contested).

With respect to property located outside the Republic of Uzbekistan, a separate court ruling is issued, the execution of which is carried out in accordance with the rules of the procedural legislation of the state in whose territory this property is located, or in accordance with international treaties of the Republic of Uzbekistan with the state in whose territory this property is located.The financial manager independently assesses the assets of a natural person included in the liquidation estate. This assessment may be challenged by the natural person, creditors, or the authorized body in the insolvency proceedings.

The meeting of creditors has the right to make a decision to conduct an assessment of the property of the natural person debtor in accordance with this Law, with the involvement of an appraisal organization and payment of the costs of conducting this assessment at the expense of the persons who voted for the adoption of the relevant decision.

A natural person's property, or a portion thereof, is sold by auction via an online electronic auction in the manner prescribed by this Law, unless otherwise provided by a decision of a creditors' meeting or a court order. The sale of collateral is carried out in accordance with the procedure established by Article 126 of this Law.

If the financial manager is unable to sell the natural person's property and/or claims from third parties in the prescribed manner, and if creditors refuse to accept this property and/or claims to satisfy their claims after the sale of the natural person's property is completed, the natural person's right to dispose of this property and/or claims is restored. In this case, the property constituting the liquidation estate and not sold by the financial manager is transferred to the natural person by deed.

The financial manager is obliged to inform the natural person, creditors and the relevant authorized body at their request about the inventory, valuation and sale of the property of a natural person, and also to present a report at the meeting of creditors.

Property owned jointly by a natural person with his or her spouse (former spouse) is sold in accordance with the general rules for insolvency proceedings, as provided for in this article. In such cases, the spouse (former spouse) has the right to participate in the insolvency proceedings when resolving issues related to the sale of the joint property.

The liquidation estate includes a portion of the funds from the sale of the common property of the spouses (former spouses), corresponding to the share of the natural person debtor in such property; the remaining portion of these funds is paid to the spouse (former spouse) of the natural person debtor.

If the spouses (former spouses) have common obligations (including in the presence of joint obligations or the provision by one spouse of a surety or collateral for the other), the portion due to the spouse (former spouse) is paid after the satisfaction of the spouse's (former spouse's) obligation.

The commented article establishes the procedure for assessing, selling and realizing the property of a natural person, the responsibilities of the financial manager in this process, the specifics of realizing property in common ownership, as well as the procedure for restoring the rights of a natural person in relation to unrealized property.

1. Part one of this article stipulates that, within one month of the inventory and valuation of a natural person's property, the financial manager must submit to the court the procedure and terms for the sale of the natural person's property, including the initial sale price. This requirement obligates the financial manager to promptly organize the property sale process and ensure that the sale is carried out under economically justified and fair terms. Specifying the initial sale price is necessary to ensure that the property is sold in accordance with the valuation results and to prevent the possibility of it being artificially undervalued.

According to this regulation, the procedure, terms, and conditions for the sale of a natural person's property are subject to court approval. The court also verifies the

compliance of the submitted proposals with legal requirements, as well as the principles of fairness and proportionality.

At the same time, it is established that the sale of the property of a natural person debtor must be carried out in accordance with the rules set forth in Articles 126, 127, and 151 of this Law. These articles regulate the primary methods of property sale, the procedure for organizing and conducting the sale, requirements for procedural transparency, and guarantees of equality of participants. This ensures that the property is sold through auction or other legally prescribed methods under competitive conditions and at a fair market price.

Article 126 of the Law generally provides for open bidding (auction) as the primary method of selling property and establishes requirements aimed at ensuring transparency in the sale of the property of a natural person debtor, as well as providing all interested parties with equal opportunities to participate in the bidding. This ensures that the property is sold at a price as close as possible to its market value. Article 127 of the Law establishes the procedure for organizing and conducting the sale of the property of a natural person debtor, including procedural rules related to the publication of an auction announcement, the registration of participants, the setting of the starting price, and the recording of the auction results. Compliance with these requirements ensures the legality of the property sale. Furthermore, special rules stipulated by Article 151 of the Law, which take into account the specifics of insolvency proceedings for natural persons, must be observed. This article stipulates that when selling the property of a natural person, their social status, minimum living needs, as well as property protected by law and not subject to sale, must be taken into account.

Thus, the combined application of Articles 126, 127, and 151 ensures compliance with the principles of legality, transparency, fairness, and proportionality in the sale of the property of a natural person debtor. The financial manager may sell the property only if these requirements are met; otherwise, the results of the sale may be declared invalid or may result in liability for the financial manager.

Furthermore, according to the requirements of this regulation, matters concerning the approval of the procedure, terms, and timeframes for the sale of a natural person’s property, as well as the determination of the initial sale price, are resolved by the court through the issuance of a separate procedural document—a court ruling. The court ruling serves as the legal basis for the property sale procedure. It officially approves the procedure and terms of the property sale proposed by the financial manager after verifying their compliance with legal requirements, the reasonableness of the initial price established based on the results of the property valuation, and the balance of interests between creditors and the debtor.

This provision also provides for the possibility of appealing a court ruling to a higher court or filing a protest against it in accordance with the procedure established by law. This rule represents an important procedural guarantee aimed at verifying the legality and validity of court decisions made in insolvency proceedings.

Establishing the right to file a complaint or protest protects the legitimate interests of parties to the case, including the natural person debtor, creditors, the financial manager, and other interested parties. If they believe that the court violated legal requirements when determining the procedure and terms of the property sale or setting the initial sale price, they have the right to demand a review of the relevant determination. This provision ensures judicial review of judicial decisions, helps eliminate potential judicial errors, and guarantees the lawful and fair conduct of insolvency proceedings. It also provides the natural person debtor, creditors, and other interested parties the opportunity to review the legality and validity of the court-established procedure for the sale of property or the initial sale price in a higher court.

2. This provision establishes a special procedure for the adoption and enforcement of court decisions regarding the property of a debtor who is a natural person located outside the country. According to it, the court issues a separate ruling regarding such property.

The need for a separate determination is due to the fact that this property is located outside of Uzbekistan. Therefore, its sale or other procedural actions regarding it are not carried out in accordance with the general procedure, but rather in accordance with the requirements of international law and the legislation of the foreign state in which the property is located.

In accordance with this norm, the execution of such a determination is based on two legal grounds: firstly, in accordance with the current procedural legislation of the state in whose territory the property is located; secondly, in accordance with international treaties concluded between the Republic of Uzbekistan and the state where the property is located, if such treaties exist.

This procedure ensures the enforcement of judicial decisions in compliance with the principle of territorial sovereignty of states and precludes interference in the domestic legal order of foreign states. At the same time, if applicable international treaties exist, it creates the possibility of realizing assets during insolvency proceedings through mechanisms of mutual recognition and enforcement of court decisions.

3. Part three of this article establishes the procedure for assessing assets included in the liquidation estate during an insolvency case involving a natural person, as well as the possibility of challenging the results of such assessment. According to this provision, the authority to assess assets belonging to the natural person debtor is vested in the financial manager, who shall conduct such assessment independently.

Independent valuation by a financial manager is one of their primary functions in insolvency proceedings and is aimed at objectively and reasonably determining the market value of assets. In doing so, the financial manager is obligated to take into account legal requirements, regulations governing valuation activities, and current market conditions.

At the same time, this provision provides for procedural oversight of the appraisal results, granting the right to challenge them. Specifically, the natural person

debtor, creditors, and the authorized government agency involved in the insolvency proceedings of a natural person have the right to challenge the appraisal if they believe it is contrary to law, unfounded, or significantly different from the actual market value of the property.

Physical persons who disagree with the appraisal results have the right to appeal to the court to review the appraisal conducted by the financial manager, on the grounds provided by law. The authorized body may also verify the appraisal results and require the financial manager to conduct a revaluation of the property. If an application is filed with the court, the court reviews the legal basis for the appraisal, the method used to value the property, the validity of the calculations, and their compliance with market value. If the court upholds the application, it decides to revalue the property or change its initial value. Having a mechanism for challenging appraisal results ensures transparency in the financial manager's activities, prevents instances of artificial undervaluation or overvaluation of property, and serves to ensure balanced protection of the legitimate interests of both creditors and the natural person debtor.

4. This provision defines the rights and powers of the creditors' meeting during the assessment of the property of a natural person debtor. According to it, the creditors' meeting has the right to decide to engage an appraisal organization to assess the property of a natural person debtor in accordance with the requirements of the Law. This decision is made to determine the fair and objective value of the property, which, in turn, ensures the lawful and proportionate satisfaction of creditors' claims.

If such a decision is made, the appraisal costs are borne by those creditors who personally consented and voted to engage the appraiser. This procedure is intended to ensure a balance between creditors' interests and their financial responsibility, as the appraisal costs are borne exclusively by the creditors who supported the decision.

This provision ensures the legality of creditors' meetings and establishes a fair mechanism for assessing assets. It also prevents potential disputes over the distribution of expenses by explicitly identifying those responsible for covering them. The creditors' meeting's authority in this area allows it to take into account the interests of all creditors and ensures that the assessment results correspond as closely as possible to the actual market value of the assets.

5. Part five of this article defines the method of selling property within the framework of an insolvency case of a natural person and establishes the legal basis for its sale through an electronic online auction.

Unless otherwise established by a creditors' meeting or a court ruling, a natural person's property, including any portion thereof, is subject to sale by electronic online auction, as provided for by law. This procedure is aimed at ensuring a transparent and fair competitive environment for the sale of property.

As is known, collateral is property pledged by a natural person debtorto secure the interests of creditors. When selling such property, its legal status and the terms

of the collateral must be taken into account. If the property being sold is collateral, its sale is carried out in accordance with the procedure established by Article 126 of the Law. This article sets forth the rules for holding an auction for the sale of collateral, including requirements for publishing a notice of sale, registering participants, and setting the starting price. These rules ensure compliance with the principles of openness, equality, and fairness in the sale of collateral. They also guarantee the protection of collateral rights and provide creditors with adequate legal guarantees during the sale of the property.

6. This norm establishes important legal mechanisms related to the sale of property within the framework of insolvency proceedings of a natural person and ensuring the interests of creditors.

If the financial manager failed to sell the property belonging to a natural person and/or the right of claim against third parties in the established manner, or the creditors refused to accept such property or the right of claim to satisfy their claims, the said property is not used within the framework of the insolvency procedure.

In this case, after the completion of the property sale, the natural person's right to dispose of the property and/or claim is subject to restoration. This procedure is aimed at protecting the debtor's legal rights and preventing the unlawful alienation of their property.

Furthermore, assets included in the liquidation estate and not sold by the financial manager are subject to transfer to a natural person under an acceptance certificate. Such a certificate serves as an official legal document confirming to whom and on what basis the property was transferred, and provides the debtor with adequate legal protection.

These provisions ensure a balance of interests between creditors and the natural person debtor in insolvency proceedings, restore the debtor's rights to unrealized property, and guarantee its legal return after completion of the relevant procedures.

7. This provision defines the powers and responsibilities of the financial manager during the inventory, valuation, and sale of assets during insolvency proceedings for a natural person. The financial manager is obligated, at the request of the natural person, creditors, and the relevant authorized body, to notify them of the progress of the inventory, valuation, and sale of the debtor's assets. This obligation is aimed at ensuring the transparency of the procedure and protecting the rights of all participants.

Furthermore, the financial manager is required to submit a report to the creditors' meeting on the results of the inventory and valuation of assets, as well as the progress and results of their sale. This report must fully and objectively reflect the composition of the assets, their estimated value, the sale procedure, and the results achieved. This provision ensures that all procedures related to the debtor's assets are conducted transparently and under proper control during insolvency proceedings. Physical persons and creditors are provided with the opportunity to receive timely information

on the value of the assets and the progress of their sale, and to protect their rights and legitimate interests in accordance with the legally established means.

8. The eighth part of this article is aimed at regulating legal issues related to the personal and joint family property of a natural person in the insolvency proceedings.

According to this provision, property jointly owned by a natural person and their spouse or former spouse is subject to sale as part of the debtor's insolvency proceedings in accordance with the general rules set forth in this article. These rules are aimed at ensuring the transparent and legal valuation and sale of property.

A spouse or former spouse has the right to participate in the consideration of matters related to the sale of joint property during an insolvency case. This right allows the holder to protect their interests when making decisions regarding the property valuation, the procedure for its sale, and the determination of the initial sale price.

9. This provision establishes the procedure for distributing funds received from the sale of joint property of spouses or former spouses during insolvency proceedings. According to this provision, the liquidation estate includes a portion of the funds received from the sale of such property that corresponds to the debtor's share in the property. This share is taken into account for the purpose of satisfying the debtor's obligations to creditors and is part of the assets used in the insolvency proceedings.

The portion of the joint property not owned by the debtor is paid to their spouse or former spouse. This arrangement protects the legal rights of the owners of the family property and guarantees its fair distribution.

10. The tenth part of this article regulates special cases arising in the distribution of funds received from the sale of the common property of spouses or former spouses within the framework of the insolvency proceedings of a natural person.

According to this rule, if a spouse (or former spouse) has joint obligations, such as joint liabilities, or if one spouse has acted as a guarantor or provided collateral to secure the other's obligations, this affects the distribution of funds received from the sale of property. In such a case, the portion of the funds due to the spouse or former spouse is paid only after their obligations for such joint debts are satisfied.

This procedure ensures the fair fulfillment of general obligations, the correct distribution of funds received from the sale of property, and the maintenance of a balance between the rights of spouses and the interests of creditors in insolvency proceedings.

See also: International Commentary, p. 799.

Article 221. Procedure for Satisfying the Claims of Creditors of a Natural Person

The claims of creditors for current payments have priority over claims that arose before the acceptance of the application for recognition of a natural person as insolvent, and these claims are paid out of turn.

The claims of creditors for current payments are satisfied in the following order:

firstly—current payments related to the payment of alimony, legal costs in the case of insolvency of a natural person, payment of remuneration to the financial manager, persons engaged by the financial manager to ensure the fulfillment of the duties assigned to him in the case of insolvency of a natural person;

secondly—current payments related to labor relations;

thirdly—utility bills, as well as mandatory payments to homeowners' associations for the management of apartment buildings;

fourthly—requirements for other current payments.

The claims of creditors for current payments related to one queue are satisfied in the order of calendar priority.

Claims included in the register of creditors' claims are satisfied in the following order:

firstly—claims for obligations for causing harm to the life or health of citizens, as well as claims for the collection of alimony;

secondly—the requirements arising from labor relations;

thirdly—the claims of other creditors.

Settlements with creditors shall be made in accordance with the procedure established by Articles 150 and 154 of this Law.

The proceeds from the sale of the collateral are used to satisfy the claims of creditors secured by the collateral. After the sale of the collateral, the remaining portion, after the claims of creditors secured by the collateral have been fully satisfied, is included in the liquidation estate.

Obligations secured by a pledge of a natural person's property that are not satisfied by the value of the pledged item are satisfied as part of the claims of third-priority creditors.

If all of the debtor's property is pledged and/or the debtor's property is insufficient to satisfy the creditors' claims in full, the proceeds from the sale of the pledged item shall be distributed in the following order:

to satisfy the claims of first and second priority creditors, but within the framework of a portion of funds not exceeding ten percent;

for the payment of remuneration to the financial manager, expenses related to the payment of services of persons engaged by the manager and the sale of the collateral, as well as for the reimbursement of legal costs and other current payments, but within the framework of a portion of funds not exceeding ten percent;

The remaining funds are used to satisfy the claims of creditors secured by the collateral.

The claims of creditors that are not satisfied due to the insufficiency of the natural person's assets shall be considered satisfied, except in cases provided for by this Law.

The commented article establishes the order of satisfaction of current and registered claims of creditors of a natural person, the procedure for repayment of claims secured by collateral, as well as the rules for distributing funds in cases of insufficient assets of the debtor.

1. This provision provides for priority treatment of creditors' claims for current payments in cases of declaring a natural person insolvent and establishes their satisfaction as a matter of urgency. Creditors' claims for current payments—for example, for wages, pensions, social benefits, and other current obligations—have priority over claims that arose before the petition was accepted for proceedings. This means that creditors with current payments that arose before the initiation of insolvency proceedings are entitled to have their claims satisfied as a matter of urgency.

Priority satisfaction means that funds from the debtor's assets are allocated to such creditors first. This procedure ensures the priority fulfillment of a natural person's social and current economic obligations, thereby guaranteeing the priority of current payments.

2. The second part of this article establishes the procedure for satisfying creditors' claims for current payments in the insolvency proceedings of a natural person.

2.1. First-priority claims are current claims that must be satisfied first by funds from the debtor's assets as part of insolvency proceedings. These claims have social or special legal significance, and therefore their satisfaction is primarily intended to protect the rights and legitimate interests of both creditors and the debtor. The remaining claims, i.e., the claims that follow in priority, are satisfied only after the first-priority claims have been fully satisfied.

The concept of "claims to be satisfied first" enshrines the principle of priority in insolvency proceedings. This ensures that socially significant and statutory obligations of a natural person are satisfied first, while the claims of other creditors are satisfied at subsequent stages.

The first priority claims include: a) alimony payments, i.e. the natural person's obligations to support children and other dependents; b) legal costs associated with the consideration of the insolvency case; c) payments related to the activities of the financial manager, namely current payments for the services of persons engaged to ensure the fulfillment of the duties imposed on the financial manager within the framework of the insolvency procedure of a natural person.

2.2. Second-priority claims are current claims that are to be satisfied from the assets of the natural person debtor after the first-priority claims have been fully satisfied. These include current payments related to employment relationships, i.e., payments arising from wage obligations. Specifically, these include wages, bonuses, compensation, and other payments payable in accordance with the employment contract. The classification of such claims as second-priority claims is aimed at

protecting employees' labor rights and ensuring the preservation of their property interests, as well as the fair distribution of funds during insolvency proceedings.

2.3. Third-priority claims are those that are subject to satisfaction in a natural person's insolvency case after the full satisfaction of current payments of the first and second priorities. This priority primarily includes utility payments, i.e., current payments for electricity, natural gas, water, heat, waste removal, and other essential services. The inclusion of such payments in this priority is aimed at ensuring the minimum essential living conditions for a natural person. Furthermore, third-priority claims include mandatory payments to homeowners' associations (or other organizations managing the apartment building). Such payments are intended to cover expenses related to the maintenance, repair, and management of the common property of the apartment building and are mandatory for all owners.

Satisfaction of the third priority requirements ensures the preservation of adequate living conditions for a natural person during the insolvency proceedings, as well as the protection of collective interests associated with the use and maintenance of the common property of an apartment building.

2.4. Fourth-priority requirements These are claims that, in the context of a natural person's insolvency case, can only be satisfied after the full payment of current payments stipulated by the first, second, and third priorities. This priority also includes other claims for current payments . These are obligations that are not classified by law as separate priorities, but arose after the filing of an insolvency petition and are of a current nature. Such claims include, in particular: payments under service contracts; current rental payments; and other payment obligations arising under natural person contracts.

3. This provision of Part Three of the commented article establishes the procedure for satisfying current payments in an insolvency case involving claims of the same priority. According to this provision, if creditors' claims belong to the same priority, such claims are satisfied in calendar order , that is, based on the time of their occurrence. Calendar order means that payments are made in the strict chronological order of the occurrence of the relevant obligations. Current claims that arose earlier take precedence over claims that arose later.

This rule is aimed at ensuring the principles of equality and fairness between creditors of the same priority, and also excludes the possibility of the financial manager arbitrarily choosing individual creditors to satisfy their claims outside the procedure for distributing funds established by law.

4. Part four of the commented article establishes three priorities for satisfying claims included in the register of creditors' claims in an insolvency case involving a natural person. This procedure is aimed at sequentially satisfying creditors' claims, taking into account their social significance and legal nature.

First-priority claims include claims arising from liability for harm to the life or health of citizens, as well as claims for alimony. The priority of these claims is due

to their high social significance, as they are directly related to the protection of human life, health, and the provision for family members.

Second-priority claims are those arising from employment relationships. These include wage arrears, compensation payments stipulated by the employment contract, and other obligations arising from the employment relationship. Their separate classification is intended to ensure the social protection of workers.

Third-priority claims encompass all remaining creditor claims not assigned to the previous categories. These include obligations under loan and credit agreements, bank claims, claims arising from civil transactions, and other property claims.

Thus, the established order ensures the fair satisfaction of creditors' claims in the insolvency procedure of a natural person in accordance with their social significance and helps maintain a legal balance between all participants in the procedure.

5. This provision establishes the general legal basis for settlements with creditors in the context of a natural person's insolvency proceedings. According to it, settlements with creditors must be carried out in strict accordance with the procedures and rules stipulated in Articles 150 and 154 of this Law.

This provision is aimed at preventing the arbitrary satisfaction of creditors' claims, clearly defining the legal framework for the activities of the financial manager, and ensuring a unified and mandatory mechanism for all participants in the insolvency procedure.

Article 150 of the Law, as a rule, defines the general principles for satisfying creditors' claims, the order of their satisfaction and the rules for distributing funds, while Article 154 regulates the procedure for the actual completion of settlements with creditors, making payments, as well as the legal consequences that occur after the completion of settlements.

This rule guarantees compliance with the principle of legality when making settlements with creditors and serves to ensure the consistent and complete implementation of the insolvency procedure of a natural person.

6. This provision of part six of the commented article establishes the procedure for distributing funds received from the sale of pledged property in an insolvency case involving a natural person. According to this provision, funds received from the sale of the pledged property are primarily used to satisfy the claims of creditors secured by the pledge. This is due to the need to maintain the priority of the pledge right and is aimed at protecting the legitimate interests of the secured creditor.

If, after the sale of the pledged property, the creditor's claims secured by the pledge are fully satisfied, the remaining proceeds are included in the bankruptcy estate. These funds are then used to satisfy the claims of other creditors in the order established by the insolvency proceedings.

However, if the funds received from the sale of the collateral are insufficient to fully satisfy the claims secured by the collateral, the outstanding portion of such claims shall be satisfied in the general manner, that is, in accordance with the order of satisfaction of creditors' claims established by law.

7. This provision defines the subsequent procedure for satisfying obligations secured by collateral in the context of a natural person's insolvency proceedings. According to this provision, if a natural person's obligations secured by a pledge of their property are not fully satisfied with the proceeds from the sale of the collateral, the unsatisfied portion of the claim does not retain any special priority.

In other words, claims that are not satisfied by the value of the collateral are included in the claims of third-priority creditors and are satisfied in the general manner along with the claims of other creditors not secured by collateral.

This rule defines the limits of the right of pledge: a pledge grants the creditor priority only to the value of the pledged item. If this value is insufficient to fully satisfy the claim, the creditor becomes a regular creditor for the remainder.

This rule is aimed at ensuring a fair balance between creditors in insolvency proceedings, preventing the unjustified expansion of the advantages of the secured creditor, and establishing clear rules for the distribution of the liquidation estate.

8. Part eight of this article establishes a special procedure for the distribution of funds received from the sale of a pledged item within the framework of an insolvency case of a natural person in a special situation where all of the debtor's property is pledged, or the available property is insufficient to fully satisfy the claims of creditors.

In such a case, the law, along with protecting the interests of secured creditors, provides for limited priority for satisfying socially significant claims, as well as expenses necessary for conducting insolvency proceedings.

Firstly, no more than ten percent of the proceeds from the sale of the collateral is used to satisfy the claims of first- and second-priority creditors. First-priority claims include claims for compensation for damage to life or health, as well as alimony claims. Second-priority claims include claims arising from employment relationships. This restriction is aimed at ensuring a minimum level of satisfaction of obligations of social significance.

Secondly, no more than ten percent of the proceeds are allocated to pay the financial manager's fees, the services of specialists engaged by the manager, expenses related to the sale of the collateral, legal costs, and other current payments. This provision is intended to ensure the practical implementation of the insolvency procedure, i.e., its financial support.

Thirdly, after the above payments have been made within the established limits, all remaining funds are used to satisfy the claims of secured creditors. This preserves the fundamental nature of the security interest and ensures the priority position of secured creditors.

Thus, this norm is aimed at ensuring a balance of interests: on the one hand, it primarily protects the rights of creditors whose claims are secured by collateral, and on the other hand , it allows for a limited satisfaction of socially significant claims and the covering of necessary costs associated with the insolvency procedure.

9. Part nine of this article establishes an important legal consequence arising upon the completion of a natural person's insolvency proceedings. According to this provision, if a natural person's assets prove insufficient to satisfy creditors' claims and, for this reason, natural person claims remain unsatisfied , such claims are deemed to be discharged by operation of law.

This rule is aimed at achieving one of the main goals of natural person insolvency proceedings: releasing the natural person from debt obligations and providing the opportunity to begin economic activity "with a clean slate." After the insolvency proceedings are fully completed, the natural person should not be permanently bound by outstanding debts, but should be able to restore their financial position and begin a new business.

However, the provision contains the caveat: "except in cases provided for by this Law." This means that not all claims are subject to automatic write-off. The law may provide for the retention of certain unsatisfied claims. In particular, such claims may include: obligations to compensate for harm caused to life or health due to the fault of a natural person; alimony obligations; obligations arising from intentional violation of the law; cases where the debtor's bad faith behavior is established during insolvency proceedings.

Thus, this norm reflects the social orientation of the institution of insolvency: on the one hand, creditors' claims are satisfied to the maximum extent possible within the framework of the law, and on the other hand, after the completion of the insolvency procedure, a natural person is freed from the burden of remaining debts and is given the opportunity to return to full economic activity.

See also: International Commentary, p. 799.

Article 222. Completion of Settlements with Creditors and Release of a Natural Person from Obligations

After completing settlements with creditors, the financial manager is obliged to submit to the court a report on the results of the sale of the natural person's property, copies of documents confirming the sale of the natural person's property and the satisfaction of creditors' claims, as well as a register of creditors' claims, indicating the amount of satisfied creditors' claims.

Based on the review of the report on the results of the sale of the natural person's property, the court issues a ruling on the completion of the procedure for the sale of the natural person's property.

After settlements with creditors are completed, a natural person is released from the obligation to fulfill unsatisfied claims of creditors due to the insufficiency of the natural person's property, including claims of creditors not declared when the debt restructuring procedure was introduced or the natural person was declared bankrupt and his property was sold (hereinafter referred to as the release of a natural person from obligations).

The release of a natural person from obligations does not apply to the circumstances provided for in part five of this article, as well as to the claims of

creditors who are not aware or could have been unaware of the initiation of insolvency proceedings against a natural person.

Release of a natural person from obligations is not permitted in cases where:

there is a court decision that has entered into force on bringing a natural person to criminal or administrative liability for the intentional creation of insolvency or concealment of insolvency following his illegal actions in the insolvency case;

evidence has been established that the natural person has failed to submit the required information or has intentionally submitted knowingly false information to the court considering the insolvency of the natural person, and this evidence is confirmed by the relevant judicial act adopted during the consideration of the case of insolvency of the natural person;

illegal actions of a natural person during the period of the emergence or fulfillment of the demands of the creditor or the relevant authorized body have been proven, including fraud, unjustified evasion of debt repayment, evasion of taxes and duties, as well as the intentional submission of knowingly false information to the creditor when obtaining a loan, concealment or intentional destruction of property.

In the cases provided for in part five of this article, the court, in its determination on the completion of the procedure for the sale of a natural person's property, shall indicate the non-application of the rule on release from obligations with respect to the natural person, and if these cases are identified after the completion of the insolvency case, the court shall issue a determination on the non-application of the rule on the release of the natural person debtor from obligations.

Creditors' claims for current payments, for compensation for harm caused to life or health, claims arising from labor relations, for the collection of alimony, as well as claims inextricably linked to the creditor's identity (including those not filed in the insolvency case) remain in force and may be filed after the completion of the insolvency case of a natural person in their outstanding portion in the manner prescribed by law.

After completion of the procedure for the sale of a natural person's property for unsatisfied claims of creditors, as provided for in part seven of this article and included in the register of creditors' claims, the court shall issue a writ of execution in accordance with the procedure established by law.

The rules of part five of this article also apply to the requirements:

on bringing a natural person to justice as a responsible person subject to subsidiary liability;

on compensation for damages caused intentionally or through negligence by a natural person to a legal entity that is a participant or member of its collegial bodies;

on compensation for damages caused intentionally, through negligence, as a result of the financial manager's failure to perform or improper performance of the duties assigned to him in the case of insolvency of a natural person;

on compensation for damage caused to another person's property by a natural person intentionally or through negligence;

on the application of the consequences of invalidity of a transaction recognized as invalid in accordance with the requirements of this Law.

The commented article establishes the procedure for the financial manager to complete settlements with creditors on the debt of a natural person, the conditions for releasing a natural person from obligations, as well as cases that exclude the possibility of such release.

1. The content of the first part of this article means that after full completion of settlements with creditors as part of the procedure for the sale of the property of a natural person, the powers of the financial manager move to the stage of reporting. At this stage, the financial manager is obliged to submit to the court documents confirming the results of his activities. According to this norm, the financial manager is obliged to submit to the court the following documents: 1) a report on the results of the sale of the property of a natural person, on the basis of which the legality, transparency and efficiency of the property sale procedure are assessed; 2) copies of documents confirming the sale of the property of a natural person to confirm the fact of sale of the property and the method of its implementation; 3) copies of documents confirming the satisfaction of creditors' claims - to confirm the actual execution of settlements; 4) a register of creditors' claims indicating the amount of satisfied claims of each creditor, making it possible to accurately determine the volume and amount of satisfied claims of each creditor.

Establishing these requirements allows the court to evaluate the results of the sale of a natural person's assets, verify that the financial manager's actions comply with legal requirements, and determine the extent to which creditors' interests are protected. Furthermore, this provision is aimed at ensuring the accountability and responsibility of the financial manager, strengthening judicial oversight, and formally completing the final stage of insolvency proceedings against a natural person.

2. According to this provision, the court reviews the report submitted by the financial manager during the sale of a natural person's property and assesses its compliance with legal requirements and validity. The report must reflect the results of the property sale, the status of settlements with creditors, and compliance with the established procedure.

Based on the review of the report, if the court determines that the property sale procedure was carried out in accordance with legal requirements, the creditors' claims were satisfied in the established order and in the appropriate amount, and the financial manager did not violate the law, the court issues a ruling on the completion of the procedure for the sale of the natural person's property.

If the report is deemed unfounded, the court issues a ruling refusing to complete the sale of the natural person's property. In this case, the matter of completing the sale of the property is reconsidered after the identified deficiencies are corrected and a new report is submitted.

A court ruling on the completion of the procedure for the sale of a natural person's property officially confirms the completion of this procedure and entails the

termination of the powers of the financial manager at this stage, the onset of the legal consequences of the property sale procedure in relation to the natural person, and the creation of a legal basis for the adoption of subsequent procedural decisions.

A court ruling on the completion of a natural person's property sale is a procedural judicial act and may affect the rights and legitimate interests of interested parties, including the debtor, creditors, and the financial manager. However, the question of whether it can be challenged is theoretically relevant. However, current legislation does not expressly provide for the possibility of appealing a court ruling on the completion of a natural person's property sale.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On certain issues of application by economic courts of the norms of the Law of the Republic of Uzbekistan 'On Insolvency'"

27. Courts should note that, according to the Law, a court ruling terminating liquidation proceedings is not subject to appeal (protest). However, such a ruling may be reviewed based on newly discovered circumstances, provided the grounds provided for in Article 327 of the EPC, including if the debtor's assets are discovered after the liquidation proceedings are completed. If a ruling terminating liquidation proceedings is overturned based on newly discovered circumstances, the court's ruling shall indicate the reinstatement of liquidation proceedings.

Taking into account the above circumstances, it can be concluded that, as a result of applying the rules of law by analogy, a court ruling on the completion of the procedure for the sale of a natural person's property is also not subject to appeal.

However, despite the fact that this ruling is considered a final procedural judicial act, it is not completely incontestable. In particular, if the grounds stipulated by Article 327 of the EPC exist, including if previously unknown assets of the debtor are discovered after the completion of the property sale procedure, this ruling may be revised based on newly discovered circumstances at the request of the parties to the case.

Thus, although the possibility of appealing a court decision on the completion of the procedure for the sale of a natural person's property is legally limited, in order to ensure procedural fairness, an exclusive mechanism for its review has been retained - the institution of review of judicial decisions based on newly discovered circumstances.

3. Part three of this article provides for the determination of the legal fate of a natural person's debt obligations after the completion of insolvency proceedings.

According to this provision, after settlements with creditors are completed, if a natural person's assets prove insufficient to satisfy all creditor claims, the natural person is released from the obligation to fulfill any outstanding claims. This rule

applies in cases where it is objectively impossible to fully repay the debt due to the natural person's insufficient financial position. Furthermore, this provision stipulates that if debt restructuring proceedings are initiated against a natural person, or if a natural person is declared bankrupt and the sale of their assets is initiated, creditor claims not filed in accordance with the established procedure are also not subject to fulfillment by the debtor. This strengthens the obligation of creditors to file their claims promptly and in accordance with legal requirements.

However, this exemption is not absolute. Legislation may provide for exceptions under which certain obligations remain in effect, including those related to alimony payments, compensation for harm caused to life or health, and compensation for damages caused by a crime.

4. The content of Part Four of this Article is aimed at defining the limits of application of the principle of exemption of a natural person from obligations and indicates that this principle is not absolute. According to this provision, exemption of a natural person from obligations does not apply to the following two categories of cases:

Firstly, the cases provided for in part five of this article—that is, exceptions specifically established by law, in which a natural person is not released from fulfilling certain obligations even after the completion of insolvency proceedings. Typically, such cases relate to obligations of a socially significant nature or requiring special legal protection.

Secondly, the claims of creditors who were not notified of the initiation of insolvency proceedings against a natural person or who objectively could not have been notified of such proceedings apply. This provision is aimed at protecting the procedural rights of creditors. If a creditor was not aware of the initiation of insolvency proceedings or could not have obtained such information for objective reasons, it is presumed that they were not prevented from timely filing their claims through their own fault.

The legal essence of this exception is that the release of a natural person from obligations does not automatically terminate the claims of such creditors, but rather ensures the priority protection of their legitimate interests.

5. Part five of this article establishes the cases in which the release of a natural person from obligations shall not be permitted. In accordance with this provision: a) if in the insolvency case there is a final and binding judicial act on bringing a natural person to criminal or administrative liability for intentional causing of non-payment or concealment of insolvency due to his illegal actions, the release from obligations shall not apply. This rule is aimed at ensuring fairness and protecting the rights of creditors in cases where insolvency arose as a result of intentional actions of the debtor; b) if it is established that a natural person failed to submit the necessary information to the court considering the insolvency case or knowingly submitted false information, and this fact is confirmed by the relevant judicial act, the release from obligations shall not apply to him. This provision is aimed at ensuring the

liability of the debtor during the judicial proceedings and protecting the principles of procedural transparency. c) a natural person is not released from obligations in cases where evasion of legal obligations or fraudulent activity is proven, namely: unjustified evasion of taxes, fees, or loans, knowingly providing false information to a creditor when obtaining a loan, concealment of property, or its intentional destruction. If such actions are established by a court or other authorized body, release from obligations does not apply. This precludes the possibility of providing legal protection to a debtor who intentionally violated the law and ensures the protection of creditors' interests.

This rule ensures the fairness of the institution of releasing a natural person from obligations and does not allow the use of mechanisms provided by law by persons who acted in bad faith or committed deliberate illegal acts.

6. Part six of this article establishes the grounds on which the court, in its determination to complete the procedure for the sale of a natural person's property, indicates that the rule on releasing a natural person from fulfilling obligations does not apply.

According to this provision, if exceptional circumstances stipulated by part five of this article are identified, the court, in its ruling on the completion of the sale of a natural person's property, shall indicate that the rule on the release of obligations shall not apply. If such exceptional circumstances are identified after the insolvency proceedings have been completed, the court shall issue a separate ruling excluding the rule on the release of the natural person debtor **from** obligations.

If the above exceptional circumstances are identified after the completion of the insolvency case, the court issues a separate ruling stating that the statutory rule on release from obligations does not apply to the debtor who is **a natural person** , i.e., due to the presence of exceptional circumstances, the debtor is not released from fulfilling the relevant requirements.

Thus, this provision allows the court to waive the rule on releasing the debtor from obligations in exceptional circumstances, allowing for fair and sustainable decisions. This ensures balanced protection of the interests of both the debtor and creditors, and also contributes to strengthening legal certainty and the effectiveness of insolvency proceedings.

7. Part seven of this article provides that individual creditor claims, as well as the unsatisfied portion of such claims, may be stated and presented by a creditor in the manner prescribed by law after the completion of a natural person's insolvency case. According to this provision, the following categories of creditor claims are excluded from the insolvency procedure of a natural person and retain their legal force: 1) claims for current payments, that is, the debtor's obligations related to his daily needs, payment of utilities, rent and other regular payments; 2) claims for compensation for harm caused to the life or health of a citizen (these claims provide for the debtor's obligation to compensate for harm caused to another person by his actions); 3) claims arising from labor relations, including claims for payment of

wages, compensation and other payments related to the labor rights of employees; 4) claims for the collection of alimony, that is, obligations to support children and other persons subject to social protection; 5) claims that are inextricably linked to the personality of the creditor, including claims not declared in the insolvency case and arising exclusively from personal legal relationships.

In this case, the unsatisfied portion of the specified requirements after the completion of the insolvency case of a natural person may be declared (presented) by the creditor and is subject to consideration in the manner established by law.

8. This provision establishes the procedure for the execution of claims following the completion of the sale of a natural person's property. According to this provision, following the completion of the sale of a natural person's property, the court has the right to issue a writ of execution for unsatisfied creditors' claims, as provided for in Part Seven of this article and included in the register of creditors' claims, in accordance with the procedure established by law.

This rule ensures the legal enforcement of unsatisfied creditors' claims even after the property sale process has been completed. By means of a writ of execution, creditors' claims can be enforced in accordance with the established procedure, and the debtor's obligations are legally secured.

9. In part nine of the commented article, the number of cases in which the release of a natural person from obligations is not permitted also includes issues of compensation for losses arising as a result of the liability of a natural person in the procedure for the sale of his property, as well as as a result of his intentional actions or negligence.

According to this rule, it is applied to the following cases: 1) bringing a natural person to subsidiary liability, that is, imposing on him additional property liability to other persons; 2) compensation for damage caused by a natural person to a legal entity, a participant or a member of a collegial body of which he was, as a result of intentional actions or negligence. This rule is applied in cases where the damage arose as a result of the actions of a natural person in the course of the legal entity's activities; 3) compensation for damage caused intentionally or through negligence due to the failure to perform or improper performance by a natural person of the duties imposed on him within the framework of the insolvency case of a natural person. This rule is applied in cases where the debtor has failed to fulfill his financial obligations on time and in full; 4) compensation for damage caused by a natural person to someone else's property as a result of intentional actions or negligence, that is, the obligation to compensate for damage caused to the property of another person as a result of the personal actions of the debtor; 5) requirements for the application of the consequences of invalidity of a transaction recognized as invalid.

These provisions define the limits of a natural person's personal and property liability and ensure compensation for damages arising from their intentional actions or negligence. They cover cases of subsidiary liability, liability related to the

activities of legal entities, and obligations to be fulfilled during insolvency proceedings, which is aimed at protecting the interests of creditors.

In addition, this rule serves as a legal basis for compensation for damage caused by the personal actions of the debtor, as well as damage arising from invalid transactions.

See also: International Commentary, p. 800.

Article 223. Resumption of Insolvency Proceedings Against a Natural Person

In the event that evidence is discovered of concealment of property by a debtor who is a natural person or illegal transfer of the natural person's property to third parties, the creditor or the relevant authorized body whose demands were not satisfied during the insolvency proceedings of the natural person has the right to apply to the court for a review of the determination on the completion of the insolvency proceedings.

The determination on the completion of the insolvency procedure of a natural person may be revised in the manner prescribed by the first part of this article, due to newly discovered circumstances that were not known to the creditor or the relevant authorized body on the date of the determination.

A creditor or the relevant authorized body has the right to file an application for review of the determination of completion of the insolvency procedure of a natural person on the grounds established by this article, within one month from the date of identification of circumstances that are the basis for the court to review this determination.

The revocation of a court ruling terminating a natural person's insolvency proceedings is grounds for resuming the insolvency proceedings. The court issues a ruling on resuming the insolvency proceedings, which may be appealed.

When resuming proceedings on a natural person's insolvency case, a procedure for selling his property is introduced.

In the event of the cancellation of the determination on the completion of the insolvency proceedings of a natural person, the publication of a notice of the resumption of proceedings in the case of insolvency of a natural person shall be carried out in the manner established by this Law.

From the date of the revocation of the decision to terminate a natural person's insolvency proceedings, upon resumption of the insolvency proceedings, the portion of the debt outstanding in the register of creditors' claims prior to the completion of the insolvency proceedings is restored. Other creditors or the relevant authorized body have the right to assert their claims in the manner prescribed by this Law.

The composition and amount of claims of creditors and (or) the relevant authorized body shall be determined on the date of resumption of proceedings in the case of insolvency of a natural person.

The commented article establishes the procedure for reopening an insolvency case against a natural person, reviewing the relevant court ruling, and restoring

creditors' claims in the event of discovery of a natural person's property that was hidden or illegally transferred to other persons.

1. Part one of this article defines the circle of persons entitled to apply to the court for a review of the determination terminating insolvency proceedings in the event of the discovery of concealment of the debtor's assets or the illegal transfer of their assets to third parties. According to this provision, the right to file such an application is granted to: creditors whose claims remain unsatisfied, that is, creditors who were unable to fully realize their rights as a result of the sale of the debtor's assets and the release of the debtor from obligations; the relevant authorized bodies (in cases stipulated by law), which also have the right to apply to the court for a review of the case.

The said persons have the right to apply to the court with a statement and indicate newly discovered circumstances as grounds for reviewing the determination on the completion of the insolvency procedure.

It should be noted that economic courts do not have the right to review their own judicial decisions based on newly discovered circumstances. For this reason, only the above-mentioned natural persons may file a petition to review the decision. Furthermore, a judicial decision may be reviewed based on newly discovered circumstances only after it has entered into legal force. This rule also applies to judicial decisions subject to immediate execution.

The right to appeal to the court is granted to recover damages resulting from the debtor's intentional actions or negligence, as well as to protect the rights of creditors. A court review of a case allows for a fair decision in cases where the debtor's assets have been concealed or illegally transferred to others, thereby ensuring the legality and stability of the insolvency process.

2. This provision establishes the possibility of reviewing a court ruling on the termination of a natural person's insolvency proceedings. According to this provision, if newly discovered circumstances are discovered that were unknown to the creditor or the relevant authorized body on the date of the ruling, the court may review the case in accordance with the procedure set forth in part one of this article.

The content of the concept "due to newly discovered circumstances," which is the basis for reviewing a court ruling on the completion of the insolvency procedure of a natural person, is determined in accordance with Article 327 of the EPC and the rules established by the norms of this Law.

Newly discovered circumstances are factual circumstances that objectively existed at the time of the court's consideration of the case but could not be taken into account during the trial. Such circumstances include: circumstances that were unknown to the applicant and the court during the proceedings or could not have been known to them; circumstances that became known after the issuance of judicial decisions; as well as new evidence confirming the existence of a legal fact that was not the subject of consideration during the trial and whose existence the applicant did not and could not have known.

In addition, within the framework of insolvency proceedings, newly discovered circumstances may include other evidence confirming illegal circumstances, such as the concealment of the debtor's property or the illegal transfer of property to third parties.

Newly discovered circumstances shall be considered by the court that heard the insolvency case, on the basis of this Law and Article 327 of the EPC.

Taking into account new evidence and facts, the court may decide to reopen the case, amend, or revoke the ruling. This provision is aimed at identifying intentional or illegal actions related to the debtor's property, protecting the rights of creditors, and ensuring fairness in insolvency proceedings.

3. Part three of this article establishes the time limits and legal grounds for filing an application for review of a court decision on the completion of insolvency proceedings for a natural person.

According to this norm, a creditor or the relevant authorized body has the right to file an application for review of a court decision on the completion of the insolvency procedure of a natural person within one month from the date of discovery by the court of newly discovered circumstances that are the basis for reviewing this decision.

The established one-month deadline for filing an application is a procedural deadline. If an application is filed after one month from the date the circumstances warranting review were discovered, the Law does not provide for the possibility of reinstating this deadline. However, the EPC provides for the possibility of reinstating the deadline for filing an application for review of a judicial act based on newly discovered circumstances if the court finds the reasons for missing the deadline valid.

Therefore, if a petition is granted based on the requirements of the EPC and the missed deadline is reinstated, this circumstance must be stated by the court in its decision accepting the petition for review of the judicial decision based on newly discovered circumstances. If the petition for reinstatement is denied, this must be stated in the decision returning the petition.

4. This rule establishes the legal grounds and procedural procedure for resuming proceedings in a case of insolvency of a natural person.

According to this law, if a court overturns a previously issued ruling terminating a natural person's insolvency proceedings, this circumstance constitutes legal grounds for resuming the insolvency proceedings. However, the proceedings are not resumed automatically, but rather by the court issuing a separate procedural document—a ruling resuming the insolvency proceedings.

When issuing a ruling to resume proceedings in an insolvency case against a natural person, the court is given the opportunity to re-examine issues related to the debtor's property, creditors' claims, and other material circumstances.

In the event of the annulment of a judicial act due to newly discovered circumstances, the case shall be considered by the same court that annulled the

judicial act previously adopted by it, in accordance with the general procedure established by the EPC and the rules provided for by this Law.

If a court ruling is overturned due to newly discovered circumstances, the economic court, if such an opportunity exists and subject to strict observance of the procedural rights of the persons participating in the case, that is, if they are duly notified of the time and place of the court hearing, has the right, after the issuance of a ruling to overturn the original court ruling, to consider the case on its merits directly in the same court hearing.

Furthermore, the law provides procedural guarantees for the decision to reopen proceedings in a case of insolvency of a natural person, establishing the possibility of appealing the decision in the prescribed manner or filing a protest by the prosecutor. This ensures that higher courts oversee the legality and validity of court decisions.

5. This provision defines the procedure applicable in the event of the resumption of insolvency proceedings against a natural person. According to it, from the moment the court issues a ruling on the resumption of insolvency proceedings against a natural person, the procedure for the sale of the debtor's assets is reintroduced.

This provision allows the resumption of proceedings to be viewed not as the next stage of insolvency proceedings, but as a continuation of the previously conducted process. Moreover, with the resumption of proceedings, measures aimed at identifying, seizing, preserving, and realizing the debtor's assets in accordance with the established legal procedure are once again applied to the natural person debtor.

At the same time, the introduction of a property sale procedure is aimed at effectively ensuring the rights of creditors, creating the possibility of identifying property hidden by the debtor or illegally transferred to other persons, and using such property to satisfy creditors' claims.

Thus, this provision provides for the mandatory reintroduction of the property sale procedure in the event of the resumption of insolvency proceedings in order to protect the interests of creditors and achieve the objectives of the proceedings.

6. According to this norm, in the event of the cancellation of a court decision on the completion of the insolvency procedure of a natural person, a procedural obligation related to the provision of information is established.

According to this law, if a court overturns a ruling terminating a natural person's insolvency proceedings, notice of the reinstatement of the insolvency proceedings must be officially published in accordance with the procedure established by this Law. Such publication is intended to promptly notify all interested parties, in particular creditors, authorized bodies, and other participants, of the reinstatement of the proceedings.

Publication of the notice in the prescribed manner ensures compliance with the principles of publicity and openness in the insolvency case, provides creditors with the opportunity to exercise their rights, as well as to make claims and objections regarding newly discovered property or circumstances.

7. The provisions of part seven of this article determine the legal status of creditors' claims and the procedure for their implementation in the event of resumption of proceedings in a case of insolvency of a natural person.

According to these rules, from the date of the revocation of the court's decision to terminate a natural person's insolvency proceedings until the re-completion of the insolvency proceedings, the corresponding portion of the creditors' debt, specified in the register of creditors' claims and previously unsatisfied, is reinstated and retains legal force. This circumstance does not annul previously existing creditors' claims; rather, due to the resumption of proceedings, it creates the opportunity for their further enforcement.

At the same time, this provision establishes legal guarantees not only for creditors whose claims were previously included in the register, but also for other creditors and the relevant authorized bodies after the resumption of proceedings. Moreover, they have the right to assert their claims after the resumption of insolvency proceedings in accordance with the general procedure established by this Law.

Thus, this rule is aimed at ensuring the continuity of creditors' rights during the process of reopening insolvency proceedings, maintaining a balance of interests and ensuring the fair conduct of proceedings.

8. This provision establishes the time frame for determining the claims of creditors and the relevant authorized bodies in the event of the resumption of insolvency proceedings against a natural person. According to it, the composition and amount of the claims of creditors and/or the relevant authorized body are determined based on the date of resumption of proceedings.

According to this rule, the circumstances that existed at the time the court issued its decision to resume insolvency proceedings are taken into account. Specifically, creditors' claims include the principal debt outstanding prior to the date of resumption of proceedings, accrued interest, penalties, and other payments stipulated by law.

However, claims that were previously satisfied or terminated in accordance with the law are not included in this calculation.

This provision is aimed at ensuring legal certainty and preventing unjustified changes in the amount of claims after the resumption of proceedings or their recalculation for the past period. This ensures a balance between the interests of creditors and the rights of the debtor, and guarantees fair settlements within the framework of the resumed insolvency proceedings.

See also: International Commentary, p. 800.

Article 224. Consequences of Termination of Insolvency Proceedings of a Natural Person

For five years from the date of completion of the property sale procedure or termination of insolvency proceedings in relation to a natural person, this person shall not have the right to assume obligations under credit agreements and (or) loan agreements without notifying the fact of the initiation of insolvency proceedings against him.

For five years from the date of completion of the property sale procedure in relation to a natural person or the termination of insolvency proceedings, insolvency proceedings may not be initiated at the request of that natural person.

In the event of a repeated recognition of a natural person as insolvent within five years on the basis of an application from a creditor or the relevant authorized body, the rule on releasing the natural person from obligations provided for in part three of Article 222 of this Law shall not apply to the natural person.

After the completion of the procedure for the sale of a natural person's property, the court issues a writ of execution in the manner prescribed by law for claims not declared during the insolvency proceedings for which payment has become due.

This article establishes a set of legal restrictions, exceptions, and legal consequences applicable to a natural person after the completion of insolvency proceedings.

1. Part one of this article establishes a restriction on the assumption by a natural person of civil-law obligations after the completion of insolvency proceedings against him.

According to this rule, from the date of completion of the procedure for the sale of a natural person's property or the termination of insolvency proceedings, for five years this natural person does not have the right to assume obligations under credit agreements and (or) loan agreements without notification of the fact that he/she was previously declared insolvent.

This regulation is aimed at protecting the legitimate interests of creditors and ensuring the provision of complete and accurate information about the borrower's financial status. The fact that a natural person has previously participated in insolvency proceedings is of significant legal significance for the creditor and must be taken into account when deciding whether to grant a loan or enter into a loan agreement.

However, this restriction does not completely deprive a natural person of the right to receive loans or credits, but merely establishes a requirement for disclosure and good faith. Furthermore, if, within five years of entering into a credit or loan agreement, a natural person notifies the lender in advance of the initiation of insolvency proceedings against them, the law does not prevent them from assuming such obligations.

2. Part two of this article establishes a time limit on the possibility of initiating insolvency proceedings at the initiative of a natural person after the completion of insolvency proceedings against them. According to this provision, for five years from the date of completion of the sale of a natural person's property or the termination of insolvency proceedings, insolvency proceedings may not be initiated at the request (application) of the natural person.

This provision is aimed at preventing repeated and unjustified use of insolvency proceedings by natural persons, as well as limiting cases of illegal or unfair use of this legal mechanism. This ensures the stability of civil transactions and the protection of creditors' interests.

However, this restriction is not absolute. For a five-year period, a natural person cannot initiate insolvency proceedings. However, in cases provided for by law, there is no restriction on initiating insolvency proceedings against a natural person at the request of a creditor or the relevant authorized body.

3. Part three of this article establishes special restrictions governing the legal status and obligations of a natural person in the event of repeated insolvency. According to this restriction, if within a five-year period a natural person is again declared insolvent based on an application from a creditor or the relevant authorized body, the rule on the release of a natural person from obligations established by part three of Article 222 of this Law shall not apply. This provision is aimed at ensuring a fair balance in legislation.

In the event of a repeated recognition of a natural person as insolvent, it is established that the use of a legal mechanism for release from obligations should not serve as a means of reducing the consequences of illegal or irresponsible actions of such a natural person.

In other words, if a natural person's repeated insolvency is due to concealment of assets, fraud, or damages resulting from intentional or negligent actions, such natural person is not entitled to avail themselves of the relief from obligations. This provision was introduced to protect the rights of creditors and ensure financial liability as established by law.

Thus, this rule creates legal guarantees for creditors and authorized bodies and limits the legal advantages of a natural person in the event of repeated cases of insolvency.

4. This provision establishes mechanisms for ensuring creditors' rights even after the sale of a natural person's property has been completed. According to it, if the due date for the performance of an obligation has arrived and certain claims have not been filed during the insolvency proceedings, the court has the right to issue a writ of execution in accordance with the procedure established by law.

This provision is aimed at protecting the interests of creditors and ensures the legal recovery of claims that were not considered during insolvency proceedings. This ensures that all legal claims are satisfied even after the sale of a natural person's property is completed.

By issuing a writ of execution, the legal claims of creditors against the debtor are officially granted the opportunity to be realized, and the legal basis for the mechanism for protecting the rights of creditors after the completion of the sale of a natural person's property is strengthened.

Article 225. Features of Proceedings in a Case of Insolvency of a Natural Person in Connection with the Conclusion of a Settlement Agreement

The conclusion of a settlement agreement is the basis for terminating proceedings in a case of insolvency of a natural person.

A settlement agreement concluded during the course of proceedings on the insolvency of a natural person shall apply to the claims of the relevant authorized body and (or) creditors included in the register of creditors' claims on the date of the meeting of creditors that adopted the decision to conclude the settlement agreement.

The settlement agreement is approved by the court.

If a settlement agreement is concluded, the execution of the natural person's debt restructuring plan is terminated, as is the moratorium on satisfying creditors' claims.

Upon termination of proceedings in a case of insolvency of a natural person in connection with the conclusion of a settlement agreement:

the powers of the financial manager of a natural person are terminated;

a natural person or a third party participating in the settlement agreement begins to repay the debt to creditors.

In the event of resumption of insolvency proceedings due to a violation of the terms of the settlement agreement, a procedure for declaring the natural person bankrupt and selling his property is introduced.

The commented article establishes that the conclusion of a settlement agreement during the insolvency proceedings of a natural person is grounds for terminating the proceedings, that the settlement agreement is approved by the court, the powers of the financial manager are terminated, and in the event of a violation of the terms of the agreement, the proceedings are resumed, the natural person is declared bankrupt and the procedure for the sale of his property is introduced.

1. A settlement agreement is a written agreement between a natural person and creditors, approved by a court and aimed at settling debt obligations in accordance with the procedure established by law. In other words, it is an effective legal mechanism for the fair and lawful settlement of debt obligations between the natural person debtor and creditors, based on the mutual consent of the parties, aimed at achieving certainty regarding claims, and representing a written agreement between the parties to resolve the dispute.

The main purpose of a settlement agreement is to restructure a natural person's debt and satisfy creditors' claims on a legal basis.

A natural person and creditors have the right to enter into a settlement agreement at any stage of the proceedings after the debtor's financial position has been established. However, the settlement agreement applies only to claims included in the creditors' register of claims.

In insolvency cases, parties not involved in the case may also participate in concluding a settlement agreement to resolve the dispute. Once approved by the court, the settlement agreement serves as the basis for terminating the insolvency proceedings.

2. The requirements of this provision define the legal consequences of concluding a settlement agreement and the limits of its application. According to it, a settlement agreement concluded during insolvency proceedings against a natural person applies only to claims included in the register of creditors' claims on the date of the creditors' meeting at which the relevant authorized body and/or creditors who decided to settle the debt associated with the debtor's assets made the corresponding decision.

In other words, a settlement agreement concluded during insolvency proceedings against a natural person is legally binding only with respect to the specific claims of creditors who participated in the resolution and those included in the register of creditors' claims. This means it does not apply to the claims of all creditors as a whole.

This means that the settlement agreement applies only to claims raised at the creditors' meeting where the agreement was considered, and to the extent of the amounts specified in the register of creditors' claims. However, it does not affect any claims of creditors that arise subsequently or whose claims were not included in the register.

When considering the conclusion of a settlement agreement, creditors of the first, second, and third priority have the right to vote. The decision is considered adopted if a majority of creditors of these priority categories participating in the creditors' meeting vote in favor of its approval.

3. Part three of this article establishes the procedure for the court to approve a settlement agreement concluded during proceedings on the insolvency of a natural person.

The court's review and approval of a settlement agreement concluded during insolvency proceedings against a natural person is a key and necessary step in terminating the insolvency proceedings. During the hearing, the court, in accordance with the procedure established by law, ensures the parties have the opportunity to reach an agreement and verifies the terms of the settlement agreement.

If, during the consideration of the case, at any court hearing, the parties declare their intention to enter into a settlement agreement, the court has the right to provide them with the opportunity to enter into such an agreement, discuss its terms, or postpone the consideration of the case to another date.

The issue of approving the settlement agreement is considered at a court hearing, and the parties to the case are duly notified of the time and place of the court hearing.

The court's task is to verify compliance with the requirements for the form and content of the settlement agreement, the procedure for its conclusion, its compliance with the law, and the absence of violations of the rights and legitimate interests of others. Such a review is not the court's right, but its duty. Approval of a conditional or illegal settlement agreement is prohibited.

A settlement agreement concluded during insolvency proceedings against a natural person is drawn up in writing and signed on behalf of the debtor by the financial manager, creditor representatives, or third parties participating under a power of attorney. The power of attorney is attached to the settlement agreement and included in the case file.

The settlement agreement is drawn up and signed in multiple copies, one of which is included in the court case file. When approving the agreement, the court verifies its compliance with the law and the absence of any violation of the rights and legitimate interests of others. If a violation of the law or the rights of others is established, the court denies approval of the settlement agreement and considers the case on its merits.

A settlement agreement approved by the court acquires legal force only after its approval. An agreement not approved by the court has no legal force. An approved agreement defines the debtor's obligations and the creditors' rights and provides the legal basis for its enforcement.

Following the approval of a settlement agreement concluded during insolvency proceedings against a natural person, the court issues a ruling approving the settlement agreement and terminating the proceedings. Anyone who disagrees with this ruling has the right to appeal it or file a protest in accordance with the procedure established by the EPC.

These provisions ensure the legality and protection of the rights and interests of the parties when concluding and approving a settlement agreement, and also create the opportunity for a legally fair completion of insolvency proceedings.

4. This rule establishes that the conclusion of a settlement agreement within the framework of proceedings on the insolvency of a natural person entails important legal consequences.

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50. The court shall issue a ruling on approval of the settlement agreement, which must indicate the termination of the insolvency proceedings.

In the event of a settlement agreement being concluded during the insolvency proceedings of a natural person, the execution of the debt restructuring plan is terminated, as is the moratorium on satisfying creditors' claims (part four of Article 225 of the Law).

At the same time, the moratorium on satisfying creditors' claims is terminated. This restores the creditors' right to enforce their claims in accordance with the terms of the settlement agreement and terminates the restrictions previously imposed on the debtor.

Also, if a settlement agreement is approved during the process of declaring a natural person bankrupt and realizing his property, then the court's ruling must indicate that, on the basis of Part Five of Article 161 of the Law, the decision to declare the debtor bankrupt and to initiate proceedings on the case of realizing his property is not subject to execution, and the insolvency proceedings are terminated on the basis of Clause 7 of Article 110 of the EPC.

This provision recognizes the settlement agreement as an independent and priority legal mechanism aimed at terminating insolvency proceedings, and also ensures that previously applied procedures lose their significance after its approval.

5. Part five of this article defines the legal consequences arising from the termination of insolvency proceedings against a natural person due to the conclusion of a settlement agreement. Specifically, upon termination of the proceedings, all powers of the financial manager within the case are terminated, and the financial manager loses the right to manage the natural person's property and financial activities, exercise control, and consent to transactions.

At the same time, after the case is terminated, the natural person or third party who is a party to the settlement agreement begins directly fulfilling their debt obligations to creditors in accordance with the terms of the settlement agreement. In this case, the procedure, terms, and methods of debt repayment are determined by the settlement agreement, and the obligation to fulfill them falls on the debtor (or third party).

This provision establishes a settlement agreement as the decisive legal basis for terminating insolvency proceedings and ensures the transition from court-imposed management mechanisms and restrictions to a system of ordinary civil law obligations.

6. The provisions of part six of this article define the legal consequences arising in the event of non-fulfillment or violation of the terms of the settlement agreement. If the terms of the settlement agreement are not properly fulfilled by the natural person debtor or a third party who is a party to the agreement, and insolvency proceedings are resumed on this basis, the court shall declare the natural person bankrupt and initiate the procedure for the sale of their assets.

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50. In the event of resumption of proceedings in a case of insolvency of a natural person due to a violation of the terms of a settlement agreement, a procedure for declaring the natural person bankrupt and selling his property is introduced (part six of Article 225 of the Law).

In this case, the financial recovery and settlement mechanisms provided for by the settlement agreement lose their significance, and the proceedings move to the liquidation stage of the insolvency procedure.

The decision to declare a natural person bankrupt creates the legal basis for the sale of his property in accordance with the procedure established by law and the satisfaction of creditors' claims at the expense of the funds received in accordance with the established order and rules.

This rule is aimed at ensuring the binding force of the settlement agreement, as well as protecting the interests of creditors by establishing the application of strict legal consequences in relation to the debtor in the event of a violation of the terms of such an agreement.

See also: International Commentary, p. 801.

Article 226. Peculiarities of Challenging Transactions Concluded by a Natural Person Debtor

An application for invalidation of transactions concluded by a debtor who is a natural person may be filed with the court by the financial manager on his own initiative or by decision of a meeting of creditors or a creditors' committee, as well as by the creditor or the relevant authorized body on the basis of Articles 63, 64 and (or) 65 of this Law.

The right to file an application for invalidation of transactions concluded by a debtor who is a natural person arises from the date of the debt restructuring procedure of a natural person on the basis of Articles 63, 64 and (or) 65 of this Law.

An application for invalidity of transactions concluded by the spouse of a natural person debtor in relation to the common property of spouses, in a case of insolvency of a natural person, is filed on the grounds provided for by family law.

The commented article establishes by whom, from what moment and in what order an application may be filed with the court to invalidate transactions concluded by the natural person debtor or his spouse, on the grounds provided by law.

1. Part one of this article establishes a procedural mechanism for invalidating transactions concluded by a debtor in insolvency proceedings against a natural person. According to this provision, an application to invalidate transactions concluded by a debtor who is a natural person may first be filed with the court by the financial manager. The financial manager has the right to file such an application on their own initiative, which is directly related to their responsibilities to form the liquidation estate, prevent unjustified reductions in the debtor's assets, and suppress the debtor's dishonest actions. Thus, the financial manager acts as an active and independent party in these legal relations.

At the same time, this provision establishes a mechanism linking the insolvency administrator's initiative with the will of the creditors. Specifically, if a corresponding decision is made by a creditors' meeting or creditors' committee, the insolvency administrator is obligated to file a petition with the court to invalidate the debtor's transactions. This rule strengthens creditors' participation in the insolvency process and ensures collective oversight of the insolvency administrator's activities.

Furthermore, this provision grants creditors and the relevant authorized bodies the right to independently file suit in court. This right serves as an additional means of protecting creditors' interests in cases where the financial manager has failed to file an application or unreasonably delays filing one. The participation of the relevant authorized bodies (for example, tax or customs authorities) ensures the protection of public-law claims.

Of particular significance is the fact that this provision provides a reference to Articles 63, 64, and 65 of this Law as the legal basis for filing an application. These articles generally establish grounds for invalidating transactions concluded by the debtor with the intent to harm the interests of creditors, transactions with preference, and unreasonable or fictitious transactions. Therefore, filing an application is not arbitrary, but rather limited to cases expressly provided for by law, ensuring compliance with the principles of legality and reasonableness in the application of the law.

Thus, this norm enshrines the institution of invalidating transactions concluded by a natural person debtor as an effective legal instrument in the insolvency process, broadly defines the range of entities entitled to file an application, and provides for a comprehensive mechanism aimed at reliably protecting the interests of creditors and the state.

2. Part two of this article determines the moment when the right to apply to the court with a statement on the invalidation of transactions concluded by the natural person debtor arises, and the exercise of this right is linked to a specific legal circumstance.

According to this provision, the right to file such an application arises from the date of the initiation of the natural person's debt restructuring procedure. This rule provides for the possibility of reviewing previously concluded transactions by the debtor from the moment judicial control over the debtor's financial activities is officially established as part of the insolvency proceedings. This creates a legal basis for identifying and invalidating transactions concluded prior to or in the period preceding insolvency if such transactions harm the interests of creditors.

Moreover , the right to file an application is not arbitrary and may be exercised only in the presence of specific grounds stipulated by Articles 63, 64, and 65 of this Law. These articles generally establish the conditions for invalidating transactions concluded by the debtor with the intent to harm creditors, transactions that provide an unjustified advantage to certain creditors, as well as fictitious transactions or transactions lacking economic substance. Thus, the initiation of debt restructuring proceedings is the procedural basis for the emergence of this right, while Articles 63-65 constitute its substantive basis.

This provision is aimed at limiting the debtor's actions, committed prior to the commencement of insolvency proceedings, related to the concealment of assets, their transfer to others, or the deliberate evasion of obligations. At the same time, it also aims to prevent unfounded suspicions regarding the debtor's good faith and reasonable actions by ensuring that invalidation of transactions is possible only under the conditions stipulated by law.

3. Part three of this article establishes a special procedure for recognizing as invalid transactions related to the common property of spouses within the framework of proceedings on the insolvency of a natural person, and also ensures mutual compliance between insolvency legislation and family legislation.

According to this rule, if the spouse of a natural person debtor has entered into a transaction involving the spouses' joint property, an application to invalidate such a transaction is filed not on the grounds stipulated by insolvency legislation, but on the grounds established by family law. This rule is aimed at recognizing the special legal nature of property relations between spouses.

This approach, on the one hand, recognizes that the debtor's spouse is not a party to the insolvency proceedings, and on the other hand, has independent rights and obligations arising from their marital status. Therefore, transactions concluded with respect to the spouses' joint property cannot be automatically invalidated solely on the basis of insolvency law.

When filing an application, the grounds stipulated by family law are taken into account, including cases where the consent of the other spouse is required to dispose of the spouse's joint property, the lack of such consent, and circumstances indicating that the transaction is contrary to the interests of the family or violates the rights of the spouse. This helps prevent unjustified restrictions on the rights of the debtor's spouse.

From a procedural perspective, the dispute is heard through a lawsuit. Interested parties (spouse, counterparty, and financial manager) are brought into the case, and the evidence presented is examined in court. The financial manager assesses the circumstances from an insolvency law perspective, while the court evaluates them legally from a family law perspective. Based on the outcome of the case, the court decides whether to invalidate the transaction or dismiss the claim.

Thus, this provision clearly defines the legal regime applicable to the common property of spouses in the context of insolvency proceedings against a natural person, and is aimed at harmonizing the provisions of insolvency legislation with the provisions of family law, as well as ensuring a balance between the interests of creditors and the legal rights of family members.

CHAPTER 15. INSOLVENCY OF INDIVIDUAL ENTREPRENEURS

Article 227. Regulation of Insolvency of an Individual Entrepreneur

Chapters 1, 2, 4 and 5 of this Law shall apply to relations related to the insolvency of an individual entrepreneur, unless otherwise provided by this chapter.

The provisions of this chapter shall also apply to insolvency relations of natural persons who have lost the status of individual entrepreneurs in connection with obligations arising from previous entrepreneurial activity.

The commented article defines the general legal basis for regulating relations related to the insolvency of individual entrepreneurs.

1. According to the first part of this article, legal relations related to the insolvency of an individual entrepreneur are regulated on the basis of the rules established by this chapter. Furthermore, unless otherwise provided by special provisions, the general provisions contained in Chapters 1, 2, 4, and 5 of the Law may be directly applied to such relationships. This is aimed at ensuring consistency between special and general provisions in regulating insolvency matters for individual entrepreneurs. In this regard, the special provisions stipulated by this chapter take precedence. Issues not regulated by these special provisions shall be resolved on the basis of the relevant general provisions of the Law.

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47. When considering cases of insolvency of certain categories of legal entities, individual entrepreneurs, **natural persons,** liquidated legal entities and absent debtors, unless otherwise provided by law, **the general rules of the Law shall apply.**

53. In accordance with Article 227 of the Law, the general provisions contained in Chapters 1, 2, 4 and 5 of the Law shall apply to relations related to the insolvency of an individual entrepreneur, unless otherwise provided by special provisions of Chapter 15 of the Law, which regulates the insolvency of an individual entrepreneur.

This approach is aimed at eliminating gaps in law enforcement practice, ensuring consistency and systemic legal regulation, as well as creating legal certainty and uniform practice in the consideration of insolvency cases involving individual entrepreneurs.

An individual entrepreneur is an individual who, in accordance with the legislation on civil law relations and entrepreneurial activity, carries out entrepreneurial activity and bears personal liability for his financial and property obligations.

According to Article 4 of the Law of the Republic of Uzbekistan "On Guarantees of Freedom of Entrepreneurial Activity," an individual entrepreneur is recognized as a small business entity. Furthermore, in accordance with Article 6 of the said Law, entrepreneurial activity by a natural person without forming a legal entity is considered individual entrepreneurship. An individual entrepreneur operates independently based on property owned by them, as well as on other property rights granting the right to own and/or use property.

If an individual entrepreneur is unable to fully satisfy the demands of creditors for monetary obligations and/or fulfill their obligations to pay taxes and duties, they may be declared insolvent by the court.

In addition, a natural person who has lost their individual entrepreneur status may also be declared insolvent by the court in accordance with the established procedure if their debt obligations arose from previously carried out entrepreneurial activity (Article 26 of the Civil Code).

The unique feature of this subject is that an individual entrepreneur does not have legal entity status, but rather conducts business activities based on their personal legal status. Their financial liability is personal, and debts and obligations are typically secured by their personal property.

Insolvency of an individual entrepreneur is a condition in which they are unable to meet their financial obligations in a timely manner and in full. Its main characteristics are as follows.

Firstly, the obligations of an individual entrepreneur are directly linked to their personal assets, meaning their debts and obligations are primarily repaid with their own assets. This distinguishes them from legal entities, which are generally liable for their obligations only with their own assets.

Secondly, the amount of debt and the length of the delay are recognized as indicators of insolvency. Thus, if an individual entrepreneur fails to fulfill their debt obligations for three months, and the amount of debt is at least 200 times the base calculation amount, they may be declared insolvent by court order.

Thirdly, the legislation provides for special procedures, in relation to which special rules for conducting insolvency proceedings are established; however, in cases not regulated by such rules, the provisions of general insolvency legislation are applied.

Fourthly, these provisions also apply to individual entrepreneurs who have ceased their activities; that is, if a natural person lost their status as an individual entrepreneur, but their debt arose in connection with their previously carried out entrepreneurial activity, insolvency proceedings may also be applied to them.

Unless the chapter on insolvency of individual entrepreneurs provides a specific rule specific to that entity, the general provisions set forth in Chapters 1, 2, 4, and 5 of the Law apply to relations related to their insolvency. Furthermore, if an individual entrepreneur is declared insolvent, they are subject to the general procedure established for parties to insolvency proceedings. Furthermore, the court hearing, satisfaction of creditors' claims, distribution of assets, grounds for declaring insolvency, and the legal consequences of such recognition are carried out in accordance with the general provisions of insolvency law.

Although the insolvency of individual entrepreneurs is in many ways similar to that of legal entities, the law provides for an important distinction: only liquidation proceedings apply to individual entrepreneurs. Such procedures as observation, judicial rehabilitation, and external management do not apply to individual entrepreneurs, as they are intended exclusively for legal entities and provide for the temporary management of the enterprise, the preservation of assets, or the restoration of its operations. Since individual entrepreneurs are individuals, no external manager is appointed or external management is established. For this reason, only a debt repayment plan and liquidation procedure are applied in insolvency proceedings, which are carried out in a simplified manner, taking into account the entrepreneur's legal status as a natural person.

2. According to this rule, the provisions of this chapter apply not only to natural persons who hold individual entrepreneur status at the time of the case review, but also to natural persons who previously engaged in entrepreneurial activity and subsequently lost this status. It follows from the content of the rule that the termination of activity as an individual entrepreneur does not relieve a natural person of personal liability for debts and obligations incurred during the period of entrepreneurial activity.

Obligations arising from previous entrepreneurial activity include contractual, tax, and other obligations incurred during the period of an individual entrepreneur's activity. Even after the official termination of activity, such obligations remain, and the natural person remains personally liable for them. If the debt is related specifically to entrepreneurial activity, insolvency issues are considered in accordance with these rules. For example, citizen A was engaged in trading activities as an individual entrepreneur and, as part of his entrepreneurial activity, incurred debt to suppliers of goods or to a bank for a loan obtained as an individual entrepreneur. He subsequently ceased his entrepreneurial activity and was excluded from the state register as an individual entrepreneur (his certificate expired). However, even after the termination of activity, he failed to fulfill the debt obligations incurred during his entrepreneurial activity. As a result, creditors file a petition in court to declare him insolvent. In this situation, despite the fact that citizen A no longer has the status of an individual entrepreneur, the provisions of this chapter still apply to him, since his debt is directly related to his previous entrepreneurial activity.

These rules are aimed at protecting the rights of creditors, ensuring the responsibility of participants in business relations and guaranteeing the full fulfillment of obligations.

See also: International Commentary, p. 804.

Article 228. Signs of Insolvency of an Individual Entrepreneur Debtor and an Application for Recognition of his Insolvency

The inability of an individual entrepreneur debtor to satisfy the demands of creditors for monetary obligations and (or) to fulfill his obligations for taxes and duties, if the corresponding obligations and (or) obligations for mandatory payments are not fulfilled by the individual entrepreneur debtor within three months from the date of occurrence and the claims against the individual entrepreneur debtor are not less than two hundred times the base calculation amount, are signs of insolvency of the individual entrepreneur debtor.

An application for declaring an individual entrepreneur debtor insolvent may be filed with the court by the individual entrepreneur debtor, a creditor, as well as state tax authorities and other authorized bodies, with the exception of claims for compensation for harm to life or health, for the collection of alimony, as well as creditors filing other claims of a personal nature.

During the insolvency proceedings against a debtor who is an individual entrepreneur, creditors have the right to submit their claims for compensation for damages to life or health, alimony, and other personal claims. These creditors' claims remain valid even after the completion of the insolvency proceedings against the individual entrepreneur, unless they were submitted during the insolvency proceedings.

The commented article stipulates that the sign of insolvency of an individual entrepreneur is his inability to fulfill debt obligations in the amount of at least two hundred BCA within three months, that insolvency proceedings may be initiated by the debtor, the creditor, or the authorized body, and that creditors' claims for obligations of a personal nature remain in force even after the completion of the proceedings.

1. Part one of this article provides for the signs of insolvency of an individual entrepreneur-debtor, and also defines the grounds and conditions for their occurrence.

According to this rule, if monetary obligations and/or debt on mandatory payments of an individual entrepreneur are not fulfilled within three months from the date of their occurrence, and the total amount of such obligations is not less than two hundred times the basic calculation amount, this indicates the inability of the individual entrepreneur to satisfy the demands of creditors and fulfill his obligations to pay taxes and duties.

Insolvency proceedings for individual entrepreneurs may be initiated by the court only if the criteria specified in this article are met. If the petition for insolvency

proceedings for an individual entrepreneur does not meet the requirements established by Articles 39-45 of the Law, the court, based on its ruling, will return the petition to the applicant without initiating proceedings.

The court prepares an individual entrepreneur's insolvency case for trial in accordance with the procedure established by Chapter 19 of the EPC, taking into account the provisions of Article 49 of the Law. When deciding whether to accept an application for insolvency proceedings, the court verifies the grounds stipulated in part one of Article 37 of the Law, as well as the presence of the insolvency criteria established by this article.

If the specified grounds and indicators are absent, the court, in accordance with part five of Article 46 of the Law, refuses to accept the application for proceedings. If the absence of such grounds and indicators is established after the application has been accepted and proceedings have commenced, the court, in accordance with the second paragraph of part one of Article 55 of the Law, decides to refuse to declare the debtor insolvent.

Thus, the specified criteria serve as formal legal indicators for establishing the insolvency of a debtor who is an individual entrepreneur. They define uniform and clear criteria for assessing insolvency and create a legal basis for the court and authorized bodies to initiate the relevant proceedings.

2. In accordance with the requirements of part two of the commented article, the circle of persons entitled to file an application for the court to establish the insolvency of an individual entrepreneur is defined. According to this provision, such an application may be filed by the following entities.

Firstly, the individual entrepreneur debtor has the right to file a petition in court, officially acknowledging their financial situation and initiating insolvency proceedings. In this case, the individual entrepreneur has the opportunity to settle their obligations in accordance with the established legal procedure.

If filing an application is mandatory for an individual entrepreneur and the application does not include all the documents required by Article 40 of the Law, the court will still accept the application for proceedings. The court will request any missing documents during the insolvency case preparation stage.

Secondly, the application may be filed by creditors, i.e., persons who have claims against the individual entrepreneur for monetary or other obligations to repay the debt. Such creditors have the right to use judicial remedies to protect their rights, assessing the debtor's financial capabilities.

Thirdly, tax authorities and other authorized bodies have the right to file a complaint if an individual entrepreneur fails to fulfill their obligations to pay taxes and other mandatory payments, and there are legal grounds for filing a lawsuit. This is aimed at protecting state interests and ensuring full compliance with tax obligations.

The law also provides for exceptions. Specifically, the right to file such an application does not extend to creditors claiming compensation for damages to life

or health, alimony, or other personal claims. These claims are personal in nature and not directly related to the debtor's financial situation. Therefore, insolvency proceedings do not apply to them.

These provisions thus define the circle of persons entitled to file a petition for insolvency of an individual entrepreneur and establish existing exceptions. This provision ensures that insolvency proceedings apply exclusively to debts related to financial and business obligations and does not affect personal claims.

3. According to the third part of this article, if insolvency proceedings have been instituted against an individual entrepreneur debtor and insolvency proceedings are being carried out, creditors retain the right to present personal claims in court that are not directly related to the debtor's monetary obligations.

Insolvency proceedings for individual entrepreneurs apply exclusively to financial and business obligations. Claims of a personal nature, such as compensation for material and moral damages caused by the debtor's personal actions or liability; alimony obligations (for children or other family members); and other claims arising from personal legal relationships, are not included in the insolvency proceedings. Such claims may be defended by creditors in separate legal proceedings. It is important to note that even after the completion of insolvency proceedings, the debtor is not released from liability for personal obligations. This indicates that these claims are inextricably linked to the debtor's identity and remain valid regardless of the completion of the insolvency proceedings.

Article 229. Debt Repayment Plan

A debt repayment plan may be attached to the application of an individual entrepreneur debtor for recognition of insolvency, a copy of which is sent to creditors and other persons participating in the insolvency case.

If there are no objections from creditors, the court may approve the debt repayment plan, which is grounds for suspending insolvency proceedings for a period of no more than two months.

The debt repayment plan should include:

sources of debt repayment;

implementation period of the plan;

the amounts of money left monthly to the debtor or members of his family for consumption;

the amounts of money that are supposed to be used monthly to pay off creditors' claims.

The court has the right, upon a reasoned request from persons participating in the insolvency case, within the period specified in part two of this article, to change the debt repayment plan, including increasing or decreasing the period for its implementation, and the amounts of money left monthly for the consumption of the debtor or members of his family.

If, as a result of the individual entrepreneur debtor fulfilling the debt repayment plan, the creditors' claims are paid in full, the insolvency proceedings are subject to termination.

The commented article defines the legal consequences arising in connection with the preparation by the debtor - individual entrepreneur of a debt repayment plan aimed at satisfying the claims of creditors within the framework of the insolvency procedure, as well as the consequences of its implementation.

1. According to this provision, in order to restore their solvency, a debtor who is an individual entrepreneur has the right to attach a debt repayment plan to their insolvency petition. A copy of this plan must be sent to creditors and other parties to the case, and supporting documents (postal receipts and other proof of delivery) must be submitted to the court. Sending the plan to these parties ensures their opportunity to review its contents, submit objections and other comments, and monitor its implementation. As a rule, a debt repayment plan is submitted at the debtor's initiative, simultaneously with the filing of the petition. This demonstrates the debtor's desire to restore their financial position and their willingness to voluntarily fulfill their obligations to creditors.

Failure to provide a copy of the plan to creditors and other parties to the case is considered a violation of legal requirements. In this case, creditors are deprived of the information they need to protect their rights, which could negatively impact both the approval of the debt repayment plan and subsequent monitoring of its implementation.

2. If no objections are received from creditors to the debtor's submitted repayment plan, the court may approve or reject the attached repayment plan during the hearing, and a corresponding court ruling will be issued. If the court approves the plan, the debtor will be able to make payments in accordance with the approved plan under judicial supervision to restore their financial stability.

Upon approval of the plan, the court has the right to suspend insolvency proceedings for up to two months. This temporary suspension allows the individual entrepreneur to fulfill their obligations under the plan and satisfy creditors' claims. The period for implementing the debt repayment plan is not included in the overall insolvency proceedings. Once approved by the court, the debt repayment plan becomes binding on all parties to the case. The main objectives of this plan are: restoring the solvency of the debtor (individual entrepreneur); ensuring fair and orderly oversight by the court and creditors; and preventing unreasonable delays in the insolvency proceedings, provided that financial obligations are properly fulfilled.

If the debtor's submitted repayment plan does not meet established requirements or is contrary to the interests of creditors, the court will deny its approval. However, any objections may be raised prior to the plan's approval. Specifically, the court will consider the following circumstances: objections from creditors; the plan's failure to clearly specify sources of repayment or deadlines; incomplete or unlawful

satisfaction of creditors' claims as provided for in the plan; failure to take into account the debtor's actual financial capabilities; or the debtor's submission of false or incomplete information. If the court denies approval of the debt repayment plan, insolvency proceedings will continue, and the court may proceed to liquidation (asset disposal) of the debtor.

In other words, if creditors do not object, the court may approve the debt repayment plan and temporarily, but for no more than two months, suspend insolvency proceedings for its implementation. This helps restore the individual entrepreneur's financial stability and ensures orderly protection of creditors' rights.

3. According to the provisions of part three of the commented article, in order to ensure the proper fulfillment of financial obligations by the individual entrepreneur debtor, a procedure for drawing up a debt repayment plan has been established, and the information that it must contain has been determined.

Firstly, the plan must indicate the sources of debt repayment, that is, the financial sources from which monthly payments will be made.

Secondly, the implementation period of the plan must be determined, that is, the period of time during which the debtor undertakes to make the payments provided for in the plan.

Thirdly, the plan must specify the amount of money left monthly for the debtor and his family members to meet their vital needs.

Fourthly, the amount of funds to be allocated monthly to satisfy creditors' claims in accordance with the plan must be determined.

If the court approves a debt repayment plan, the corresponding ruling may be appealed. This is because, once a plan is approved, the insolvency proceedings are suspended, and further developments in the case become dependent on the debtor's compliance with the plan. Therefore, such a ruling directly affects the rights and legitimate interests of creditors and other parties to the case, who are granted the right to request its review by filing an appeal.

At the same time, the law does not provide for the possibility of appealing a decision denying approval of a debt repayment plan. This is because in such a case, proceedings are not suspended but, on the contrary, continue as part of the debtor's liquidation (asset disposal) process.

In other words, the debt repayment plan should serve as a mechanism that ensures a reasonable balance between meeting the vital needs of the debtor and his family members and fulfilling the claims of creditors.

4. The court has the right to issue a ruling to amend the debt repayment plan if parties to the insolvency case, such as creditors or family members of the debtor, file a reasoned petition with the court. The petition must be substantiated, filed before the expiration of the general deadline for implementing the plan, and contain specific reasons demonstrating the need for the relevant changes.

The court has the right to change the deadline for the execution of the debt repayment plan, that is, the period during which the debtor is obligated to fulfill their

payment obligations; extend or shorten the specified deadline; decrease or increase the amount of funds left to the debtor and members of their family to meet vital needs.

To consider such a petition, the previously suspended insolvency proceedings are reopened. The petition is scheduled for hearing at a court hearing, with mandatory notification of the parties to the case. Following the hearing, the court issues a ruling. If the court finds the petition justified, it issues a ruling amending the debt repayment plan and incorporates the corresponding changes into the approved plan. A court ruling denying a petition to amend the debt repayment plan is not subject to appeal.

These mechanisms, related to the debt repayment plan, are aimed at ensuring a reasonable balance between the debtor's vital needs and the financial rights of creditors. The ability to amend the plan by court order facilitates more effective implementation of the debt repayment plan and ensures the proper conduct of the insolvency proceedings.

5. The provisions of part five of this article indicate that if the individual entrepreneur debtor fully implements the debt repayment plan prepared and approved by the court, that is, fully satisfies the claims of all creditors, there is no need to continue the insolvency (bankruptcy) proceedings. On this basis, the court decides to terminate the insolvency proceedings. This entails the following legal consequences: the debtor is not considered insolvent, their legal status and business activities are not restricted, and since their solvency is considered restored, they are entitled to continue their business activities.

Thus, in accordance with the requirements of this norm, if the individual entrepreneur debtor has properly fulfilled all obligations stipulated by the debt repayment plan, and the creditors' claims have been satisfied in full, the insolvency proceedings are subject to termination on the basis of a court ruling.

See also: International Commentary, p. 804.

Article 230. Property of an Individual Entrepreneur Debtor, Not Included in the Liquidation Estate

The liquidation estate does not include the property of the debtor - an individual entrepreneur, which cannot be subject to foreclosure.

The court has the right, upon a reasoned petition of the individual entrepreneur debtor and other persons participating in the insolvency case, to exclude from the liquidation estate the property of the individual entrepreneur debtor, which cannot be subject to collection, which is illiquid, or the income received from the sale of which will not significantly affect the satisfaction of the claims.

The total value of the debtor's assets, which are an individual entrepreneur and excluded from the liquidation estate in accordance with the provisions of part two of this article, must not exceed fifty times the base settlement amount. The list of such assets is approved by the court, and a ruling is issued on it. This ruling may be appealed (contested).

The commented article defines the legal status of the property of an individual entrepreneur debtor, which is not included in the bankruptcy estate in the context of insolvency proceedings.

1. According to part one of this article, the property of a debtor who is an individual entrepreneur that cannot be seized under law, i.e., personal or socially necessary property that is not subject to seizure or sale during insolvency proceedings, is not included in the bankruptcy estate. However, in accordance with part one of Article 146 of the Law, all assets of a debtor who is an individual entrepreneur, regardless of whether they are reflected in the balance sheet, serve as the basis for the formation of the bankruptcy estate. Consequently, although the legislator generally provides for the inclusion of all assets of the debtor in the bankruptcy estate, certain categories of property are excluded from it for social protection reasons.

In other words, such property cannot be used to pay off the debtor's debt, as it is related to their personal life and livelihood. This category typically includes a portion of the residential premises within the limits established by law, basic household items, essential clothing and food supplies, as well as work equipment (e.g., tools, etc.).

The provisions of Article 52 of the Law of the Republic of Uzbekistan "On the Execution of Court Orders and Orders of Other Bodies" also apply to individual entrepreneurs. This means that, in insolvency proceedings, only property related to their business activities may be seized. At the same time, this article stipulates that foreclosure cannot be applied to the individual entrepreneur's residential premises, household items, funds necessary for work, or other property necessary to ensure decent living conditions. This provision ensures that individual entrepreneurs retain the minimum property base necessary for their personal and family life, even in the event of restrictions on their business activities, and also protects them and their family members from the loss of property necessary for living and meeting basic needs as a result of debt collection.

2. According to part two of the commented article, upon a reasoned petition from the individual entrepreneur debtor or other parties to the insolvency proceedings, the debtor's assets may be excluded from the bankruptcy estate. This rule may apply to two categories of assets.

The first category includes illiquid assets that cannot be foreclosed on, i.e., assets whose sale on the market is either virtually impossible or economically impractical (e.g., excessively worn-out assets, low-value assets, or assets that are not in demand).

The second category includes property, the sale of which will not have a significant impact on the satisfaction of creditors' claims, that is, in cases where the proceeds from its sale are not capable of significantly influencing the debt repayment process.

Such a decision may be made exclusively by a court based on a ruling based on a reasoned petition from the debtor, creditor, or other interested party. A report from an appraiser may be submitted as proof of the property's value.

A court ruling is a procedural act and may be appealed or contested in accordance with the procedure established by law. This rule particularly applies to rulings excluding property from the bankruptcy estate or releasing it from foreclosure. If the parties to the case disagree with such a court ruling, they have the right to appeal to a higher court in accordance with the procedure established by law.

3. Part three of the commented article establishes the maximum value of the debtor's property, which may be excluded from the bankruptcy estate, i.e., exempt from foreclosure. According to this provision, the total value of the individual entrepreneur debtor's property—the individual entrepreneur subject to exclusion from the bankruptcy estate must not exceed fifty times the base calculation amount.

The court has the right to exclude certain assets from the bankruptcy estate based on the debtor's social or economic status. However, the total value of such assets may not exceed the limit established by law.

These provisions limit the court's powers in insolvency proceedings and establish a clear economic criterion when deciding whether to exclude assets from the bankruptcy estate. At the same time, this provision is aimed at protecting the interests of creditors and ensuring a fair and proportionate insolvency procedure.

A specific list of the individual entrepreneur debtor's property to be excluded from the bankruptcy estate is approved by the court. On this matter, the court issues a procedural act in the form of a ruling. The ruling specifies the specific property to be excluded from the bankruptcy estate, its value, and the grounds for this decision.

Furthermore, the law provides for the right to appeal this decision or file a prosecutorial protest against it. This ensures the protection of the rights and legitimate interests of parties to the proceedings, particularly creditors and other interested parties.

See also: International Commentary, p. 805.

Article 231. Invalidity of Transactions of an Individual Entrepreneur Debtor

Transactions of an individual entrepreneur debtor, related to the alienation or other transfer of his property to interested parties, after filing an application for recognition of the debtor - individual entrepreneur as insolvent in court, are null and void.

At the request of the creditor, the court shall apply the consequences of the invalidity of a voidable transaction in the form of returning the property of the individual entrepreneur debtor, which was the subject of the transaction, to the property of the individual entrepreneur or in the form of foreclosure on the relevant property located in the possession of interested parties.

The commented article stipulates that after filing a petition with the court to declare an individual entrepreneur debtor as insolvent, transactions aimed at alienating his property to other persons are considered invalid by virtue of law, and the court has the right to apply the consequences of the invalidity of such transactions by returning the property or foreclosing on the relevant property.

1. The concepts of invalidity of a transaction by operation of law and invalidation by a court are regulated separately in civil law. In some cases, as provided for by the Civil Code, transactions are considered invalid per se, while in others, their invalidity is contested (established) exclusively in court. However, in the event of an individual entrepreneur's insolvency, these concepts are applied in a special manner that differs from the general rules.

If a petition for recognition of insolvency is filed with the court against an individual entrepreneur debtor, then from that moment on, all transactions related to the transfer of his property to other persons or other provision of property to interested persons are considered invalid by law.

From the moment an application is filed with the court, the entrepreneur's property rights are limited: he does not have the right to alienate his property, donate it, or transfer it to interested parties.

Interested parties in relation to the individual entrepreneur debtor are understood to be his spouse, relatives in the direct ascending and descending line, brothers and sisters, their descendants, as well as the parents, brothers and sisters of the spouse (part two of Article 21 of the Law).

If such a transaction is concluded, it is considered invalid by operation of law, meaning that a separate court ruling is not required to invalidate it. A voidable transaction is invalid regardless of whether it is declared so by a court (Article 113 of the Civil Code). Moreover, the consequences of the transaction's invalidity are applied by the court at the creditor's request. This may involve returning the property to the debtor's estate or foreclosing on assets held by the relevant parties.

These provisions are aimed at protecting the interests of creditors and preventing attempts by the debtor, after the commencement of insolvency proceedings, to conceal property, transfer it to other persons, or withdraw assets in various ways in order to evade the fulfillment of their obligations.

2. Part two of the commented article defines the legal consequences of certain transactions concluded after filing an application with the court to declare the individual entrepreneur debtor insolvent.

In such a situation, the debtor may attempt to conceal assets from creditors by transferring, selling, or otherwise disposing of them to others, especially interested parties. Therefore, the legislature recognizes such transactions as invalid by operation of law, meaning that a separate court decision is not required to invalidate them.

However, the application of the consequences of invalidity of such transactions is exercised exclusively by the court at the request of the creditor. Cases regarding

the application of the consequences of invalidity of transactions concluded by the individual entrepreneur debtor are heard by the economic court in accordance with the procedure established by procedural legislation. Moreover, a claim for the application of the consequences of invalidity of a transaction may only be filed by the creditor. A judicial review is carried out based on the filed claim, within the framework of which the court considers the invalidity of the relevant transaction.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On certain issues of application by economic courts of the norms of the Law of the Republic of Uzbekistan 'On Insolvency'"

32. Claims for invalidation of transactions concluded by the debtor are subject to consideration outside the framework of the insolvency case, in compliance with the general rules of jurisdiction and venue of cases established by procedural legislation.

In this case, the court has the right, based on its decision, to apply one of two measures: return the property that was the subject of the transaction to the debtor's estate; or foreclose on the corresponding property held by the person who received it as a result of the transaction. The purpose of applying such measures is to form the bankruptcy estate necessary to satisfy creditors' claims.

If an individual entrepreneur's debt-related transactions are declared invalid, the practical legal consequences of such transactions apply solely upon the creditor's request filed in court. The court decision states the invalidity of the transaction and determines the procedure for returning the property or foreclosing on the relevant assets. Furthermore, the court decision may be appealed by the debtor, creditor, or other interested parties in accordance with the procedure established by law, which serves to ensure the legality of the judicial act and the observance of procedural fairness.

These provisions constitute an effective mechanism aimed at preventing cases of harm to the interests of creditors through the illegal withdrawal of assets by the debtor, as well as ensuring property justice during the insolvency proceedings.

Article 232. Consideration by the Court of the Case of Insolvency of the Individual Entrepreneur Debtor

Upon accepting a petition for insolvency, the economic court seizes the debtor's assets, with the exception of those assets that cannot be seized under law. At the request of the debtor, the court may release the seized assets (or part of them) if a valid surety or other guaranteed security for the debtor's financial obligations is provided by third parties.

At the request of the individual entrepreneur debtor, the court may postpone the consideration of the insolvency case for no more than one month

to allow the individual entrepreneur debtor to make settlements with creditors or reach a settlement agreement.

If there is information about the opening of an inheritance in relation to a citizen—an individual entrepreneur, the court has the right to suspend proceedings on the insolvency case of the individual entrepreneur until the issue of the fate of the inheritance is resolved.

If, within the period established by part two of this article, the individual entrepreneur debtor has not provided evidence of satisfaction of the creditors' claims and a settlement agreement has not been concluded within the specified period, the court shall decide to declare the individual entrepreneur debtor bankrupt and initiate liquidation proceedings.

The commented article defines the grounds on which the court, when considering the insolvency case of a debtor - an individual entrepreneur, has the right to seize his property, postpone or suspend the consideration of the case for a certain period, as well as declare the debtor bankrupt and begin liquidation proceedings in the event of failure to satisfy the claims of creditors.

1. According to this provision, insolvency cases involving a debtor who is an individual entrepreneur are heard by the court at their place of residence. This means that applications filed against such a debtor are subject to review by the court at their place of residence (Article 36 of the EPC, part two of Article 6 of the Law). The place of residence of a debtor who is an individual entrepreneur is understood to be their permanent or primary place of residence.

Applications filed with the court in violation of the rules of jurisdiction are subject to return based on a court ruling in accordance with paragraph 3 of part one of Article 155 of the EPC.

If, after the initiation of insolvency proceedings, it is established that the debtor (individual entrepreneur)'s place of residence has changed prior to the initiation of the proceedings, the court is obligated to transfer the case to the appropriate court with jurisdiction, pursuant to paragraph 1 of part 2 of Article 39 of the EPC. If, however, the debtor (individual entrepreneur)'s place of residence has changed after the initiation of insolvency proceedings, the case is heard on its merits by the court that accepted it (Part 1 of Article 39 of the EPC).

When accepting an application for bankruptcy of an individual entrepreneur debtor, the court applies interim measures against their property, specifically, seizing it. This seizure is used to preserve the debtor's assets, ensure their financial position, and protect the rights of creditors.

During the seizure process, property that cannot be seized under the law (e.g., essential personal items, socially significant assets, and other property expressly excluded by law) may be exempted from seizure if there is supporting evidence. This process is aimed at ensuring legal stability and maintaining a fair balance during insolvency proceedings.

However, if the debtor's monetary obligations are secured by a third-party surety or other appropriate means of ensuring the fulfillment of obligations, the court, upon the debtor's petition, has the right to release part of their property from seizure. The essence of this mechanism is as follows:

Availability of security and guarantees for the fulfillment of obligations. To secure the fulfillment of the debtor's monetary obligations, third parties (e.g., guarantors, a bank, or other financial institution) must provide guarantees or corresponding assets. The presence of such security serves as documented grounds for the release of a portion of the property from seizure.

Application at the debtor's request. To ensure the debtor's legal protection, the court releases property from seizure only at the debtor's request. The court does not have the right to take such action on its own initiative, as this is a procedural requirement established by law.

Consequences of releasing property from seizure. If property is released from seizure, it is excluded from the scope of enforcement of creditors' claims. However, since the debtor's monetary obligations are secured by guarantees, creditors retain adequate security for their claims, and their rights are not violated.

The legal significance of this rule is that it ensures the reasonable and fair use of the individual entrepreneur's personal property, allows for the preservation of the financial resources necessary for the continuation of his activities, and at the same time guarantees the protection of the interests of creditors.

2. The court has the right to postpone the hearing of an insolvency case against a debtor who is an individual entrepreneur for up to one month upon the submission of a reasoned petition and documents supporting the arguments set forth therein, i.e., if the debtor indicates their intention to settle accounts with creditors or enter into a settlement agreement. After reviewing the petition, the court may issue a ruling to postpone the hearing of the case for up to one month. The purpose of this procedure is to allow the debtor the opportunity to settle accounts with creditors or reach a settlement agreement on the terms of debt repayment.

It should be noted that a court decision to postpone a case's hearing does not affect its substance or change the legal grounds for its consideration. In other words, even if the case is subject to court review on its merits, the postponement period cannot exceed one month. Thus, this provision, on the one hand, gives individual entrepreneurs the opportunity to independently resolve their financial debt, and on the other, ensures the protection of creditors' rights.

If the insolvency case was postponed for one month at the request of the debtor - individual entrepreneur, but during this period the creditors' claims were not satisfied or a settlement agreement was not concluded, the consequences provided for in part four of this Article shall occur.

The conclusion of a settlement agreement falls within the exclusive jurisdiction of the creditors' meeting. After the relevant decision is made in accordance with the

procedure established by law, the settlement agreement is concluded and subject to court approval. If approved, the insolvency proceedings are terminated.

3. Part three of the commented article establishes that the court has the right to suspend proceedings in the case of insolvency of an individual entrepreneur until a decision is made on the fate of the inheritance.

If information related to an inheritance comes to light during the insolvency proceedings of an individual entrepreneur, the court has the right to suspend proceedings until the fate of the inherited property is determined. This is because, when information about the opening of the inheritance is presented to the court, the individual entrepreneur's assets and debts may be linked to the persons accepting the inheritance.

The law stipulates that insolvency proceedings against an individual entrepreneur may be suspended until the inheritance issue is resolved. However, the suspension period is not limited to a specific date and continues until the court officially resolves the inheritance issue.

Resolving the inheritance issue is the basis for the court to reopen insolvency proceedings. If an individual entrepreneur accepts the inheritance, the property received through inheritance is recognized as their personal property and is included in the bankruptcy estate or used to satisfy creditors' claims as part of the insolvency proceedings.

A court order to suspend proceedings postpones the consideration of the individual entrepreneur's insolvency case; however, the creditors' rights are not terminated: after the inheritance issue is resolved, they retain the opportunity to enforce their claims.

Furthermore, insolvency proceedings may be suspended if criminal proceedings are initiated against an individual entrepreneur for actions (or inactions) that led to their insolvency. In such a case, insolvency proceedings are resumed after the entry into force of the judicial decision in the criminal case or after the completion of the preliminary investigation.

4. In accordance with part four of the commented article, if the individual entrepreneur debtor fails to provide evidence of the execution of the debt repayment plan or the conclusion of a settlement agreement with creditors within the specified time period, the court shall officially recognize his inability to fulfill his debt obligations.

In this case, the court, based on the fact of non-fulfillment of creditors' demands, does not have the right to release the individual entrepreneur's property from seizure and begins the procedure for the sale (liquidation) of his property.

In this regard, the court carries out the appropriate procedural actions and makes a decision to declare the individual entrepreneur bankrupt and to initiate liquidation proceedings.

The debtor's property is distributed under judicial supervision in order to satisfy the claims of creditors; if necessary, property that cannot be subject to foreclosure in accordance with the law is excluded from the bankruptcy estate.

This regulation is aimed at formalizing the financial liability of individual entrepreneurs, protecting the rights of creditors, and systematically organizing the debt repayment process. If the debtor fails to fulfill their obligations within the established deadline, the process of realizing their assets officially begins based on a court decision.

If the individual entrepreneur fully fulfills his obligations in accordance with the debt repayment plan or settlement agreement with creditors and the creditors' claims are fully satisfied, the court terminates the insolvency proceedings, and the insolvency procedure itself is considered complete.

In this case, foreclosure measures against the individual entrepreneur's property are canceled, the property is returned to its owner, and all restrictions related to the fulfillment of obligations are lifted. Creditors' rights are considered protected, since the full satisfaction of their claims is officially confirmed, which terminates the debtor's financial liability.

If, during the bankruptcy proceedings, a settlement agreement is reached between the debtor and creditors and concluded in accordance with the established procedure, the court issues a ruling terminating the insolvency proceedings. If the creditors' claims are fully satisfied and the relevant supporting evidence is submitted to the court, the court will deny the bankruptcy petition.

See also: International Commentary, p. 805.

Article 233. Consequences of Declaring an Individual Entrepreneur Debtor Bankrupt

From the moment the court makes a decision to declare the individual entrepreneur debtor bankrupt and commence liquidation proceedings:

the deadlines for fulfilling the debtor's monetary obligations are considered to have arrived;

the accrual of penalties (fines, late fees), interest and other economic (financial) sanctions on all obligations of the debtor ceases;

Collection from the debtor under all writs of execution shall be terminated, with the exception of writs of execution for claims for the collection of alimony, as well as for claims for compensation for harm caused to life or health.

The court sends the decision declaring the debtor (individual entrepreneur) bankrupt and initiating liquidation proceedings to all known creditors, specifying a deadline for creditors to file claims, which must not exceed one month. The debtor (individual entrepreneur) is responsible for distributing this court decision.

From the moment the court makes a decision to declare an individual entrepreneur debtor bankrupt, his state registration as an individual

entrepreneur becomes invalid, and the licenses issued to him for carrying out certain types of activities are also terminated.

The court sends a copy of the decision to declare the individual entrepreneur debtor insolvent to the body that registered this person as an individual entrepreneur and to the licensing authority.

The rules provided for in parts three and four of this article shall not apply when a debtor who is an individual who has lost the status of an individual entrepreneur is declared bankrupt.

The commented article establishes that from the moment an individual entrepreneur is declared bankrupt, the deadline for fulfilling all of his obligations is considered to have arrived, the accrual of sanctions and the performance of individual enforcement actions cease, the status of an individual entrepreneur and the validity of his licenses are terminated, and the relevant state bodies are subject to notification of this.

1. The insolvency case of an individual entrepreneur must be considered within the timeframes established by Article 50 of the Law. From the moment the court issues a decision declaring the individual entrepreneur bankrupt and initiating liquidation proceedings, this court decision is recognized as the only procedural document with corresponding legal significance. With this decision, a number of significant legal consequences arise in the legal and financial status of the individual entrepreneur.

Firstly, all of the debtor's property obligations are considered and satisfied not in a general manner, but exclusively within the framework of the insolvency case. Moreover, creditors have the right to present their claims only in accordance with the procedure established by the court.

Secondly, the debtor's assets form the bankruptcy estate, meaning they are considered a property complex intended to satisfy creditors' claims. The right to dispose of this property is no longer exercised by the debtor themselves, but by an authorized person (for example, a judicial manager) appointed by a court decision.

Thirdly, the debtor's right to dispose of their property is limited. From this point on, they are no longer entitled to sell, gift, pledge, or otherwise dispose of their property.

Fourthly, the satisfaction of creditors' claims is carried out exclusively in accordance with the provisions of insolvency legislation, that is, in the order and procedure established by law.

Fifthly, from the moment this court decision is made, the individual entrepreneur's business activity is considered officially terminated. Furthermore, they lose the right to continue activities carried out under a license, permit, or other legal document.

Thus, the said court decision marks the beginning of a new legal stage in relation to the individual entrepreneur—liquidation proceedings, within the framework of

which all of its property and financial relations are regulated by insolvency legislation.

1.1. From the moment the court declares an individual entrepreneur bankrupt and initiates liquidation proceedings, the debtor's financial obligations are deemed due. This rule has significant legal and procedural significance and entails a number of practical consequences.

Firstly, all debt obligations are considered due and payable simultaneously. This means that the debtor's monetary obligations to creditors (loans, taxes, fees, fines, and other payments) are all deemed due. This allows creditors to assert their claims in full during the insolvency proceedings.

Secondly, obligations whose due date has not yet arrived are also considered enforceable. For example, even if the debtor was supposed to make a payment only in six months, after a court judgment, such an obligation is considered immediately enforceable, and the creditor has the right to immediately file a claim in insolvency proceedings.

Thirdly, the debtor's financial position is no longer assessed in the general manner, but exclusively within the framework of insolvency proceedings. Since all obligations are recognized as due at the same time, it becomes possible to objectively determine whether the debtor's assets are sufficient to satisfy creditors' claims.

Thus, this rule ensures the satisfaction of the claims of all creditors on an equal basis, as well as the regulation of all financial relations of the debtor within the framework of a single legal insolvency procedure.

1.2. From the moment an individual entrepreneur is declared bankrupt and liquidation proceedings are initiated, in accordance with the law, penalties (fines, late fees), interest, and other economic (financial) sanctions on all of the debtor's obligations cease to accrue and are subject to cancellation.

The legal essence of this provision lies, first and foremost, in protecting the debtor from excessive financial burden. After a court decision is rendered, the debtor's financial situation is completely subject to judicial review. If interest or penalties continued to accrue after this, the debtor's liabilities would artificially increase, which would also be contrary to the interests of creditors. This is why the legislator stops further accrual. Secondly, in insolvency proceedings, the amount of claims is determined based on the date of cessation of payments. As a result of the cessation of interest and penalties, the amount of creditors' claims is determined by the court and the liquidation manager based on the date of bankruptcy and the commencement of liquidation proceedings. Thirdly, the debtor's assets are distributed based on their actual value. By ceasing the accrual of financial sanctions, the distribution of the bankruptcy estate is carried out fairly and in accordance with the actual economic situation of the debtor.

Thus, this norm ensures a fair and stable economic and legal procedure for conducting insolvency proceedings, and also contributes to a more effective completion of the process of terminating the debtor's financial activities.

1.3. Enforcement of all writs of execution against the debtor is terminated. In other words, from the moment the court issues a decision declaring an individual entrepreneur bankrupt, all enforcement actions under writs of execution related to the debtor are suspended and terminated. This is a necessary measure to ensure that the debtor's assets are distributed exclusively within the framework of the insolvency case, following the established procedure.

However, the legislator provides exceptions to this rule for certain claims of particular social significance. For example, claims for alimony are personal and ongoing, and therefore are not limited by insolvency proceedings. Declaring a debtor insolvent does not relieve them of the obligation to provide financial support to their children, parents, or other dependents. Similarly, claims for compensation for harm caused to life or health are also personal obligations. Since they are directly related to a person's life and health, recovery under enforcement documents relating to these claims shall not be cancelled. They are satisfied independently based on the relevant writs of execution.

All other claims, including tax arrears, loans, obligations arising from commercial contracts, as well as other monetary obligations, are satisfied in the general manner at the expense of the bankruptcy estate.

2. This provision establishes the procedure for executing a court decision and notifying creditors. According to it, if a court has declared an individual entrepreneur bankrupt and initiated liquidation proceedings, a copy of the court decision must be sent to all known creditors. This requirement is established by law to protect creditors' rights and ensure their ability to participate in insolvency proceedings.

The court decision must also specify the period during which creditors have the right to file their claims. This period cannot exceed one month. This period represents the statutory limit for collecting creditors' claims and officially registering them. Furthermore, it ensures the transparency of the insolvency proceedings and equal opportunity for all interested parties to participate. Thus, this procedure creates a legal basis for identifying creditors, formalizing their claims, and fairly satisfying them from the bankruptcy estate.

The costs associated with sending copies of the court decision declaring the individual entrepreneur bankrupt and initiating liquidation proceedings to all known creditors are borne by the debtor (individual entrepreneur). This rule is consistent with the general principle of insolvency proceedings, according to which the debtor is responsible for covering all procedural and organizational costs associated with the liquidation process. Specifically, the costs of sending notices to creditors (postage, publication costs, etc.) are covered by the debtor, and if the debtor has no funds, they are covered by the bankruptcy estate.

Thus, this provision places the financial burden associated with insolvency proceedings on the debtor itself, eliminating the need to finance the judicial procedure from public funds and ensuring the economic responsibility of the debtor for conducting the insolvency procedure.

3. Part three of this article establishes the most important legal consequences of recognizing an individual entrepreneur as bankrupt.

Once a court declares an individual entrepreneur debtor insolvent (bankrupt), their right to engage in entrepreneurial activity ceases. This means that, based on the court decision, their status as an individual entrepreneur is terminated. Information regarding their state registration as an individual entrepreneur loses legal force, and a corresponding entry is made in the state register.

Licenses issued for certain types of activities are terminated. If an individual entrepreneur was engaged in activities subject to licensing (for example, operating a pharmacy, providing transportation services, performing construction work, etc.), the licenses issued to them are terminated upon the court's decision.

As a legal consequence, the recognition of an individual entrepreneur as insolvent (bankrupt) entails the termination of all his rights and obligations as an entrepreneur, the deprivation of the ability to perform such legal actions as concluding new contracts, obtaining loans, and hiring employees, and subsequently he acquires the right to re-state registration only after the completion of the insolvency procedure and the expiration of the established period of restrictions.

Thus, this norm stipulates that recognition of an individual entrepreneur as insolvent (bankrupt) entails the complete cessation of his entrepreneurial activity, the loss of his status as a business entity, and the deprivation of the right to carry out activities requiring a license.

4. When a court issues a decision to declare an individual entrepreneur debtor insolvent (bankrupt), sending a copy of this decision to the body that registered the individual entrepreneur, that is, the authorized body that carried out the state registration of the entrepreneur (as a rule, the district or city center of state services), as well as the licensing authority, if the entrepreneur's activities relate to types of activities requiring a license—the state body that issued the relevant license, is provided for in part four of the commented article.

In practice, this requirement serves to ensure that the authorities responsible for state registration and licensing are notified of the recognition of an entrepreneur as bankrupt, as a result of which such actions are carried out as termination or cancellation of business activities, termination of the license, and updating of statistical and legal data.

5. If the debtor is an individual who has lost their individual entrepreneur status, the special provisions stipulated in parts 3 and 4 of this article regarding individual entrepreneur activities may not apply to them. This means that a person who has lost their individual entrepreneur status is not subject to the special restrictions and rules established by parts 3 and 4 of this article during insolvency (bankruptcy) proceedings. However, this does not mean that the general provisions of insolvency legislation governing the recognition of a debtor as bankrupt, the consideration and satisfaction of creditors' claims, the distribution of property, and other relevant procedures do not apply to them.

Therefore, if a debtor participates in a case before a court or authorized body as a natural person who has lost their individual entrepreneur status, the special provisions set forth in parts three and four of this article cannot be applied automatically. These provisions are intended to apply exclusively to individuals who retain their individual entrepreneur status and are engaged in entrepreneurial activity.

Consequently, the court or authorized body must decide on the application of these rules in each case separately, based on the actual legal status of the debtor and the specific circumstances of the case.

In practice, this approach ensures legal certainty, prevents the broad interpretation of legal provisions contrary to their intended purpose, and eliminates the unjustified imposition of additional restrictions on a person who has lost their individual entrepreneur status, as provided for entrepreneurs.

See also: International Commentary, p. 805.

Article 234. Execution of a Court Decision on Recognition of Bankruptcy and Initiation of Liquidation Proceedings

A court decision declaring an individual entrepreneur bankrupt and initiating liquidation proceedings, along with a writ of execution for foreclosure on the debtor's property, are sent to the bailiff for the sale of the debtor's assets. The following assets, with the exception of those not included in the liquidation estate in accordance with this Law, are subject to sale:

all property of the individual entrepreneur debtor;

the property of a natural person debtor who has lost their status as an individual entrepreneur that was acquired through their previous entrepreneurial activity. Whether the natural person's property is acquired through their previous entrepreneurial activity or is unrelated to their previous entrepreneurial activity is determined by the court.

If ongoing management of the debtor's real estate or valuable movable property is required, the court appoints a liquidation manager for these purposes and determines the amount of their remuneration. In this case, the debtor's assets are sold by the liquidation manager.

The remaining funds in the debtor's bank account (individual entrepreneur) and bank cards, proceeds from the sale of property, and cash are deposited into the deposit account of the court that has decided to declare the debtor (individual entrepreneur) bankrupt.

The commented article establishes the procedure for executing a court decision on declaring an individual entrepreneur debtor bankrupt and initiating the procedure for his liquidation, the composition of the property subject to sale, the rules for appointing a liquidation manager, as well as the procedure for depositing funds received from the sale of property into the court's deposit account.

1. Part one of this article provides that the court decision on declaring the individual entrepreneur debtor bankrupt and initiating the liquidation procedure, as well as the writ of execution, are sent to the state bailiff for the sale of property.

A writ of execution serves as the basis for identifying, assessing, and selling all assets of the debtor (individual entrepreneur). Therefore, the court decision, along with the writ of execution, is sent to the bailiff or the relevant enforcement agency in accordance with the established procedure.

This procedure is implemented to ensure the proper legal formalization of the debtor's property sale process. At the same time, this provision defines the mechanism for the court to issue a writ of execution for the compulsory execution and sale of property. This means that the court decision and writs of execution are accepted for enforcement proceedings, and measures are organized to identify, appraise, and sell the property, as well as to satisfy creditors' claims.

This provision stipulates that all assets of a debtor (individual entrepreneur) are subject to sale, with the exception of assets not included in the liquidation estate. This means that all assets of the individual entrepreneur are sold during insolvency proceedings to satisfy creditors' claims. The court or liquidation manager determines the composition and scope of the assets, conducts their valuation, and ensures that the sale is carried out in accordance with the law.

This ensures the legal inclusion of all of the debtor's property in order to satisfy the claims of creditors.

The sale of the property of the individual entrepreneur debtor, included in the liquidation estate, is carried out by the state bailiff in accordance with the Law "On the execution of judicial acts and acts of other bodies."

If the debtor is a natural person who has lost his status as an individual entrepreneur, only property acquired as a result of his previous entrepreneurial activity can be sold within the framework of the insolvency procedure.

Thus, unlike property acquired through a person's personal activity, only property related to business activity is subject to sale in insolvency proceedings. This rule is established to protect the rights of creditors and prevent unjustified foreclosure on an individual's personal property.

Furthermore, the court verifies whether the individual's property is acquired through their previous business activities or is unrelated to such activities. On this basis, only property acquired through previous business activities is included in the sale.

In this case, the court examines whether the property is related to business activity or not, based on calculations and accounting data, the history of the origin of the property; that is, it establishes whether the property was acquired through personal income or through income from business activity, and also studies the explanations of the debtor and other documents, determining the source of acquisition of assets.

The court ensures a fair and legal procedure for the sale of property; that is, if the property is not related to business activity, it is not subject to sale and is not included in the liquidation estate.

2. As a rule, the sale of assets of the individual entrepreneur debtor, constituting the liquidation estate, is carried out by a state bailiff. However, real estate or valuable movable property of the individual entrepreneur debtor requires special attention during the liquidation process, as it requires ongoing management. If such assets require ongoing management, the court appoints a liquidation manager.

Unlike the liquidation of legal entities, the court may, on its own initiative, appoint a liquidation manager to manage the property of a debtor—an individual entrepreneur.

A liquidation manager is a person officially appointed by the court who is responsible for the effective management of assets, their sale, and the protection of creditors' interests during insolvency proceedings. The amount of compensation paid to the liquidation manager is determined by the court.

The peculiarity of this case is that when a liquidation manager is appointed, the debtor's property is sold not by the state bailiff, but by the liquidation manager.

The manager sells the property in accordance with legally established procedures (by auction, bidding, or other legally prescribed means). The proceeds from the sale of the property are distributed among creditors in the prescribed manner, while the debtor's personal rights are also protected during this process.

These rules were introduced to ensure effective management of the debtor's property and protect the interests of creditors.

3. Part three of this article establishes the procedure for depositing all funds of the debtor - individual entrepreneur (located in bank accounts, plastic cards, in cash, as well as funds received from the sale of property) into the court's deposit account.

The bailiff (or liquidation manager, if special provisions apply) deposits funds into a single deposit account. Proceeds from the sale of property of the individual entrepreneur debtor, by the liquidation manager are also credited to this deposit account.

These funds are distributed under the court's supervision, meaning the debtor, creditor, or other persons have no right to dispose of these funds independently. The bailiff, and where necessary, the liquidation manager, deposits the funds into the court's deposit account and distributes them under judicial supervision.

This procedure was established for the purpose of centralizing funds during insolvency proceedings and their fair distribution among creditors.

Article 235. Consideration of Creditors' Claims

The court shall consider the claims filed by creditors within the time period specified in part two of Article 233 of this Law. Based on the results of the review, the court shall issue a ruling on the procedure and amount of satisfaction of the creditors' claims.

The commented article provides that the court shall consider the claims of creditors submitted within the established period and, based on the results of their consideration, shall issue a ruling on the procedure and amount of their satisfaction.

As is well known, every creditor has the right to file a claim for debt collection from an insolvent debtor. The court, in turn, is obligated to review such claims within the prescribed timeframe and determine whether they are justified or unjustified. According to this provision, as stipulated in part two of Article 233 of the Law, creditors are required to submit their claims to the court within one month from the date of publication of the notice declaring the debtor insolvent. This deadline is set for the inclusion of creditors' claims in the general register of claims.

The court accepts claims received from creditors, verifies each claim based on the documents submitted (loan agreement, invoice, certificate, etc.), rejects unfounded or non-compliant claims, and includes claims deemed to be justified in the appropriate order of satisfaction.

At this stage, the court acts not only as a dispute resolution body, but also as a body coordinating the insolvency procedure within the framework of the law.

If a creditor files a claim after the established deadline, the court may not include it in the main register of creditors' claims. Therefore, claims filed after the deadline do not grant the right to participate in the general meeting of creditors and cannot be satisfied from the liquidation estate under the standard procedure. They can only be satisfied at a later stage, if there is a balance in the liquidation estate. In other words, the legal status of such a creditor is limited.

In the practice of economic courts, creditors who file their claims after the established deadline has passed may file a separate petition with the court, justifying the reasons for the missed deadline. If the court finds that the missed deadline is due to valid reasons (e.g., failure to receive relevant information, late submission of documents, etc.), it may allow the claim to be heard. However, this case is an exception, as, as a general rule, claims filed after the deadline has passed are not included in the main register.

Following the review of the claims submitted by creditors, the court issues a ruling. Interested parties (the debtor, creditor, or other party to the case) have the right to appeal this ruling within the specified timeframe.

According to Article 51 of the Law, court decisions and orders in insolvency cases are subject to immediate execution. However, they may be appealed (contested) in accordance with the procedure established by the EPC.

Courts should note that, in accordance with part two of Article 61 of the Law, a court ruling issued following the consideration of disputes in an insolvency case becomes final ten days after its issuance, unless an appeal has been filed (or a protest filed). If an appeal (protest) is filed, the ruling, unless overturned, becomes final on the date the appellate court issues its ruling.

The main purpose of these provisions is to prevent the insolvency proceedings from being delayed, as well as to ensure equality and certainty in the relations between creditors, since all creditors have the opportunity to simultaneously state their claims, the court considers them according to uniform criteria, and the emergence of disputes during the distribution of the liquidation estate is prevented.

Article 236. Procedure for Satisfying Creditors' Claims

Until the creditors' claims are satisfied, the funds deposited in the court's deposit account are used to cover the costs associated with the consideration of the insolvency case and the enforcement of the court decision declaring the individual entrepreneur debtor insolvent, as well as the claims of citizens for compensation for harm caused to life or health in accordance with the law.

Creditors' claims are satisfied in the following order:

firstly—demands for the collection of alimony, as well as demands providing for settlements on wages and on the payment of remuneration under copyright agreements;

secondly—claims for taxes and duties, claims of creditors secured by collateral, in terms of outstanding debt due to the insufficiency of the amount received from the sale of the pledged property (subject of collateral), and claims of creditors not secured by collateral;

thirdly—settlements are made with other creditors.

The demands of each queue are satisfied after the demands of the previous queue have been fully satisfied.

If there are insufficient funds in the court's deposit account, these funds are distributed among the creditors of the corresponding queue in proportion to the amount of their claims.

The commented article establishes the order of satisfaction of creditors' claims in the bankruptcy of an individual entrepreneur debtor, a list of expenses subject to repayment in priority order, as well as the procedure for their proportional distribution among creditors in the event of insufficient funds.

1. Part one of this article provides for claims satisfied out of turn. Claims satisfied out of turn are claims that, in accordance with the law, are satisfied in priority to the satisfaction of the claims of all other creditors.

The law stipulates that before creditors' claims are satisfied from funds deposited in the court's deposit account, the following expenses must be paid out of turn. Specifically, these include expenses related to the insolvency proceedings, the liquidation manager's monthly remuneration, expenses related to the enforcement of a court decision declaring the debtor insolvent, and claims for compensation for harm caused to the life or health of citizens.

Expenses associated with the enforcement of a court decision declaring a debtor insolvent are practical and organizational costs incurred after the court decision is issued during the enforcement process. According to law and applicable law, the main types of such expenses include:

Firstly, the expenses of the state bailiff, that is, payments established for enforcement actions carried out by the state bailiff in order to ensure the execution of the court decision.

Secondly, the costs of publishing and disseminating information, that is, the costs associated with the publication of information about the recognition of the debtor as insolvent in official publications or on the official websites of authorized bodies.

Thirdly, expenses related to the appointment of a liquidation manager and the payment of his remuneration, that is, the remuneration paid to the person performing the duties of managing, assessing, and selling the debtor's property.

Fourthly, the costs of assessing and storing property, that is, the costs necessary to assess, ensure the safety and storage of assets belonging to the debtor - an individual entrepreneur.

Fifthly, technical and postal costs, that is, costs associated with the preparation, sending, and delivery of official documents and notifications during the course of the proceedings.

These expenses are mandatory expenses required to enforce a court decision and, in accordance with the law, are paid out of priority until creditors' claims are satisfied. In general, expenses related to the enforcement of a court decision declaring a debtor (individual entrepreneur) insolvent, as well as claims for compensation for damage caused to the life or health of individuals, are considered payments subject to priority satisfaction during insolvency proceedings.

2. Part two of this article establishes the order of satisfaction of creditors' claims.

The order of satisfaction of creditors' claims of a debtor (individual entrepreneur) refers to the order in which creditors' claims are satisfied from the assets (liquidation estate) of an entrepreneur declared insolvent, in accordance with the order established by law. However, the claims of all creditors are not equal, but are distributed according to the order established by law, and the claims of each subsequent order are satisfied only after the claims of the previous order are fully satisfied.

2.1. The claims that are satisfied first of all include those that, in the event of the insolvency of the individual entrepreneur, are paid off from the liquidation estate in priority to the claims of all other creditors.

According to the law, first-priority claims include, first and foremost, claims for alimony, meaning that in the event of an individual entrepreneur's failure to fulfill their obligation to pay alimony to their children, or other family members, these payments are repaid from the liquidation estate; claims for wages, meaning unpaid wages, compensation, and other payments related to the individual entrepreneur's employees; and claims for royalties under copyright agreements, meaning royalties payable under agreements concluded by the individual entrepreneur for the use of copyrights, licenses, or creative works.

The inclusion of these requirements is primarily aimed at ensuring the priority protection of social and personal rights. Payments related to a person's life, labor rights, and the results of creative work are satisfied before the claims of economic creditors.

2.2. Second-priority claims include those of creditors who, in the insolvency proceedings of a debtor (individual entrepreneurship), are satisfied from the liquidation estate after the first-priority claims have been fully satisfied in accordance with the procedure established by law. Claims satisfied in this priority are primarily related to state and financial interests, and their statutory priority is ensured.

This priority includes, first and foremost, claims for taxes and duties, that is, unpaid taxes, duties, mandatory state fees, and other obligations stipulated by tax legislation for individual entrepreneurs. These payments are satisfied after the claims of the first priority in order to protect the interests of the state budget and state target funds. The second priority also includes claims of creditors secured by collateral; that is, if the proceeds from the sale of the pledged property are insufficient to fully satisfy the claim, the remaining debt not covered by the value of the collateral may be satisfied secondarily. Second-priority claims also include claims of creditors not secured by collateral, that is, claims of creditors not secured by the individual entrepreneur's property. Such claims are also satisfied secondarily and only if the liquidation estate is sufficient.

The significance of the second-priority requirements is that, during the insolvency procedure, the economic interests of the state and financial stability are ensured, and the order and priority of satisfaction of the claims of creditors, secured and not secured by collateral, as provided by law, are established.

2.3. Third-priority claims include claims for which settlements with all remaining creditors of the debtor (individual entrepreneur) are made from the liquidation estate after the first- and second-priority claims have been fully satisfied. Creditor claims included in this priority category are not included in the claims of the first and second priority categories and are not related to state or other priority social claims.

These claims include debts subject to repayment in accordance with the established legal procedure, which primarily consist of creditors' claims that are not secured by collateral and are not considered priority claims. For example, debts to suppliers, service providers, as well as monetary or in-kind debts to creditors.

The claims of creditors in this priority are satisfied on an equal basis; that is, if the liquidation estate is insufficient, all claims are satisfied proportionally. Third-priority claims do not have priority over first- and second-priority claims and are satisfied from any remaining funds during the insolvency proceedings.

In general, third-priority claims represent a general procedure that ensures a fair distribution of the rights of economic creditors. A distinctive feature of this procedure is that after all priority claims are fully satisfied, the remaining funds are distributed among creditors proportionately to the amount of their claims.

3. For individual entrepreneurs, the claims of each priority are satisfied only after the claims of the previous priority have been fully satisfied. Moreover, the funds of the liquidation estate are distributed in stages: first, the claims of the first priority are satisfied, then the claims of the second priority, and finally, the claims of the third priority.

This procedure is based on the principle of priority, which states that not all claims are equal. Certain claims, particularly those related to human life and health, as well as social benefits, are given priority (first priority). The order of satisfaction of claims is applied, according to which first-priority claims (alimony, wages, royalties) are satisfied first, followed by second-priority claims (taxes, government duties, and the remaining balance of secured claims), and then third-priority claims (creditor claims not secured by collateral and not considered priority claims). The principle of proportional satisfaction of claims also applies, meaning that if claims in one priority cannot be fully satisfied, claims in the next priority are not satisfied.

In general, the priority principle for individual entrepreneurs is stricter and more simplified, since all assets and the liquidation estate belong to a single person. Therefore, the next priority claim can only be satisfied after the previous priority claim has been fully satisfied. This rule ensures the protection of creditors' interests and socially prioritized claims during insolvency proceedings and is applied in a more simplified and strict manner than in legal entity insolvency proceedings.

4. Part four of this article establishes the legal regulation of cases where the funds in the court's deposit account are insufficient to pay off the individual entrepreneur's debt.

If the funds in the court's deposit account, which form the liquidation estate, are insufficient to satisfy the creditors' claims, the creditors' claims are not fully satisfied. In this case, the remaining funds are distributed among the creditors of the corresponding order proportionately, meaning that each creditor receives a portion of the funds commensurate with the amount of their claim.

The essence of this procedure is that, in accordance with the principle of proportional satisfaction of claims, the remaining funds are distributed proportionally to the size of each creditor's claim. For example, if two creditors' claims amount to 60% and 40%, and the funds are insufficient, their claims are partially satisfied in the corresponding proportion. Proportional distribution is made only between creditors

of the same priority; claims of subsequent priorities are not satisfied until the funds are distributed among creditors of the corresponding priority.

The significance of this procedure is that it ensures equality, fairness and compliance with the statutory order of priority during insolvency proceedings, that is, the claims of all creditors of the relevant order are satisfied in proportion to the size of their claims, without giving any creditor an unreasonable advantage.

Article 237. Release of an Individual Entrepreneur Debtor from Obligations

Upon completion of the liquidation proceedings of a individual entrepreneur debtor, the debtor is released from further fulfillment of creditors' claims during the insolvency proceedings, with the exception of:

creditors' claims for compensation for harm caused to life or health;

claims for the collection of alimony, as well as other claims of a personal nature;

claims that have not been repaid in accordance with the procedure for executing a court decision on declaring the individual entrepreneur debtor bankrupt, or have been partially repaid;

claims not declared during the procedure for recognizing an individual entrepreneur debtor as bankrupt;

other claims not declared during the insolvency proceedings of the individual entrepreneur debtor.

Claims that are not exempt from execution remain in force and may be presented after the completion of the insolvency procedure of the debtor - individual entrepreneur, respectively, in full or in the outstanding part.

The commented article provides that after the completion of the liquidation procedure of the individual entrepreneur debtor, the debtor is released from further execution of the claims of creditors stated during the insolvency proceedings.

1. After the liquidation procedure for an individual entrepreneur debtor is completed, he is released, in accordance with the procedure established by law, from further fulfillment of creditors' claims stated during the insolvency proceedings; that is, his obligation to further repay debts ceases.

In other words, after the liquidation procedure is completed, the individual entrepreneur is released from the claims of creditors, that is, in accordance with the procedure established by law, he is released from further fulfillment of the main debts or debt obligations.

An individual entrepreneur, in respect of whom the liquidation procedure has been completed, after settlements with creditors are completed, is released from the execution of claims that remain unsatisfied, which is indicated in the court's decision on the completion of liquidation proceedings in respect of the individual entrepreneur.

However, this rule does not apply to all requirements, as the law provides for exceptions for certain requirements.

1.1. Even after the individual entrepreneur is released from his or her principal debts upon completion of the liquidation process, creditors' claims for compensation for damages to life or health remain a priority and are not terminated. If the individual entrepreneur's actions or inactions result in material or other damage to individuals, claims for compensation are subject to enforcement regardless of the debtor's release from obligations due to insolvency. These claims take priority to protect personal rights.

The main purpose of this rule is to ensure fair compensation for harm caused to human life and health, as well as to guarantee social protection even during insolvency proceedings.

1.2. An individual entrepreneur is not relieved of the obligation to pay child support to their children or other family members. This means that even after being declared bankrupt and completing liquidation proceedings, the obligation to pay child support remains. This is because this requirement is a priority and must be satisfied first from the liquidation estate, as social protection for children and family members must be ensured.

Furthermore, other personal claims that are considered priority obligations of an individual, regardless of their financial difficulties or insolvency proceedings, remain in effect. For example, obligations related to social security are not terminated by insolvency and are subject to fulfillment by the debtor. Such claims are satisfied prior to the property claims of creditors.

In general, alimony claims and other personal claims in the event of an individual entrepreneur's insolvency have legal priority as first-priority claims and are subject to full satisfaction. An individual entrepreneur cannot be released from these obligations due to insolvency.

1.3. In accordance with the requirements established by law, if a court decision provides for the repayment of the debts and obligations of an individual entrepreneur debtor from the liquidation estate, but such debts or claims were not fully or partially repaid during the execution of the court decision, they are not terminated due to insolvency.

Debt that is not fully repaid from the funds of the liquidation estate allocated for the execution of the court decision is subject to further execution.

This rule is aimed at ensuring the enforcement of debts not repaid during the execution of a court decision in accordance with the law and at preventing evasion of their enforcement by releasing from obligations due to insolvency.

In general, a debt that is not repaid or is only partially repaid during the execution of a court decision remains in force during the insolvency of the individual entrepreneur and is subject to enforcement in accordance with the procedure established by law.

1.4. This part of the rule establishes that the debtor's obligations, from which they are not released, include claims not declared during the bankruptcy proceedings (liquidation proceedings). Indeed, during the bankruptcy proceedings and liquidation

proceedings, some creditors may fail to declare their claims in the prescribed manner. Such undeclared claims are also not terminated by the debtor's insolvency and may be subsequently satisfied in accordance with the procedure established by law.

In accordance with the priority principle applicable in insolvency proceedings, undeclared claims, if they relate to first-priority claims (e.g. claims for alimony, compensation for harm caused to life or health), are considered priority claims and are not terminated due to insolvency; the debtor is obliged to satisfy such claims in the manner prescribed by law even after the completion of the insolvency proceedings.

Such provisions of the law are aimed at ensuring the protection of the rights of creditors and guaranteeing the fair satisfaction of their claims even in cases where they have not declared their claims in a timely manner during the insolvency proceedings.

1.5. Unlike the debt of a debtor - individual entrepreneur, which is not declared by creditors when a court decision is made, there may be cases when, during the insolvency proceedings of a individual entrepreneur debtor, some creditors also do not declare their claims in the established manner.

In other words, these are claims that were not officially declared by creditors during the insolvency proceedings of the individual entrepreneur. The difference is that "claims not declared during the bankruptcy and liquidation proceedings"—these are claims not declared by creditors at the time of the court decision, that is, obligations that existed before the decision on insolvency was made, but were not presented to the court.

At the same time, "other claims not stated during the insolvency proceedings"—these are demands that were not stated during the entire period of proceedings on the case, but which may remain in force even after the court decision is made.

In the first case, claims are not filed at the court decision stage, while in the second case, they are filed throughout the entire proceedings, and they remain valid thereafter. Such claims also do not cease to exist due to insolvency and are subject to satisfaction in accordance with the procedure established by law after the completion of insolvency proceedings.

2. After the liquidation proceedings against the individual entrepreneur debtor are completed, and settlements with creditors are completed, they are released from the obligation to fulfill outstanding claims, as specified in the ruling terminating the liquidation proceedings. However, personal obligations are an exception. Even after the insolvency proceedings are completed, the individual entrepreneur debtor's obligations for claims from which they are not released do not cease. Such claims (e.g., claims for alimony, compensation for harm caused to life or health, personal claims, etc.) retain their legal force, and the debtor continues to be liable for them even after the insolvency proceedings are completed.

These provisions ensure that individual creditor claims (those of moral and social significance) are not extinguished by insolvency. If these claims are only partially

satisfied during insolvency proceedings, the debtor is obligated to repay the remaining debt. Thus, the state upholds the principles of legal justice and social protection, according to which claims related to life, health, and personal rights are fully satisfied, regardless of the debtor's economic or financial situation.

In other words, such claims do not cease due to insolvency, but can be collected in accordance with the legally established procedure even after the debtor regains financial capacity. To implement this procedure, creditors have the right to seek protection of their rights in accordance with the established procedure even after the completion of insolvency proceedings.

If the claim is based on a court order (writ of execution, court order), the creditor applies to the Enforcement Bureau. If the claim was not previously formally filed during insolvency proceedings, the creditor applies to the court for a re-examination of the claim against the debtor, submitting documents supporting the claim.

The court or the Enforcement Bureau shall determine the debtor's property, income, or other assets acquired after the completion of the insolvency proceedings and shall collect them in the order established by law. Claims for alimony or damages are satisfied first.

See also: International Commentary, p. 805.

CHAPTER 16. SIMPLIFIED INSOLVENCY PROCEDURES

Article 238. Insolvency of a Legal Entity Undergoing Liquidation

If the value of the property of a legal entity, in respect of which a decision has been made to liquidate it due to its failure to carry out financial and economic activities and (or) failure to form its charter capital (charter fund) within the timeframes established by law, is insufficient to satisfy the claims of creditors, such legal entity shall be liquidated in the manner prescribed by this Law.

Upon discovery of circumstances stipulated by the first part of this article, the liquidation commission (liquidator) is obliged to apply to the court with a request to initiate insolvency proceedings against the legal entity or to the state tax service authorities for the adoption of appropriate measures provided for by law.

The commented article provides that in the event of insufficient assets of a legal entity in respect of which a decision on liquidation has been made to satisfy the claims of creditors, its liquidation is carried out in accordance with insolvency legislation, and the liquidation commission or liquidator is obliged to apply to the court or to authorized bodies.

1. Part one of the commented article establishes that if a legal entity has failed to carry out its financial and economic activities within the established timeframes or has failed to establish its charter capital (charter fund), resulting in its assets being insufficient to satisfy creditors' claims, it is subject to liquidation in accordance with the established procedure. The amount of the liquidated legal entity's debt, the period of its incurrence, and confirmation of claims by a court decision are not mandatory; the mere fact that the value of the legal entity's assets, in respect of which a decision has been made to liquidate it, is insufficient to satisfy creditors' claims suffices.

This article provides for three signs of insolvency of a legal entity being liquidated: 1) failure to carry out financial and economic activities within the established timeframes and (or) failure to form its charter capital (charter fund); 2) insufficiency of assets to satisfy the claims of creditors; 3) adoption in connection with this of a decision on its liquidation.

According to the Regulation approved by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 704 dated 21 August 2019 "On the procedure for exclusion from the state register of business entities not carrying out financial and economic activities," financial and economic activities are understood as the activities of business entities related to the production of goods, performance of work, implementation of trade and provision of services, as well as the maintenance of accounting, financial, statistical, banking and other documentation.

It is necessary to distinguish between cases when liquidation due to failure to carry out financial and economic activities within the timeframes established by law

and (or) failure to form the charter capital (charter fund) is carried out in accordance with the rules of insolvency legislation, and when it is carried out in accordance with other regulatory legal acts.

The above-mentioned Regulation establishes the procedure for exclusion from the state register of business entities that do not carry out financial and economic activities.

The grounds for recognizing commercial organizations as not carrying out financial and economic activities are: 1) failure to open bank accounts within three months from the date of state registration; 2) opening bank accounts, but within six months of its opening; 3) lack of receipt of funds into bank accounts in connection with financial and economic activities; 4) failure to issue electronic invoices; 5) failure to use online cash registers, virtual cash registers or marketplace payment systems; 6) failure to carry out foreign trade operations.

Founders (participants) of commercial organizations not engaged in financial or economic activities are encouraged to voluntarily liquidate their commercial organization. If tax authorities identify tax arrears as a result of their analysis and audits, measures are taken to collect them in accordance with the procedure established by law. Collection of accounts receivable and payable from a commercial organization is carried out by interested parties in accordance with the procedure established by law.

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54. To draw the attention of the courts to the fact that for the acceptance of an application for declaring a debtor bankrupt under a simplified insolvency procedure (a liquidated or absent debtor), the amount of accounts payable is not important.

Furthermore, this article provides for the failure of a legal entity to establish its charter fund (charter capital) as grounds for liquidation. Charter fund (charter capital) represents the monetary or property contribution of the founders upon the establishment of a legal entity and is the initial resource necessary to commence its operations and fulfill its obligations. Furthermore, it serves as a guarantee for creditors, indicating that the company has assets equal to at least the corresponding amount.

The procedure for forming the charter capital, the rules for its accounting, and the requirements for its minimum size depend on the organizational legal form of the enterprise being established and are regulated by the relevant laws of the Republic of Uzbekistan. The amount of the charter capital is determined by the minutes of the

founders' meeting held at the initial stage of the organization's establishment and is then set forth in the founding documents and charter.

The legislation of the Republic of Uzbekistan establishes a certain minimum size of the charter fund (charter capital) for certain types of legal entities. In particular, according to Article 17 of the Law of the Republic of Uzbekistan "On Non-Banking Credit Organizations and Microfinance Activities," the minimum size of the charter fund (charter capital) must be: a) for a guarantee organization—one hundred billion soums; b) for an organization refinancing mortgage loans—twenty-five billion soums; c) for a microfinance organization and factoring organization—two billion soums; d) for a pawnshop—five hundred million soums.

According to Article 14 of the Law of the Republic of Uzbekistan "On Limited Liability Companies," the charter capital of a company is determined by its charter and consists of the par value of the shares of the company's participants. The minimum size of the charter capital may be established by licensing requirements.

The par value is the initial value of a share, established in the company's charter. The charter fund is formed from the sum of the par values of the participants' shares. For example, Turon LLC was established in 2024 with a charter fund of 200 million soums. The company had three participants: A's share was 20%, B's share was 30%, and C's share was 50%. The par value of A's share was 40 million soums, B's share was 60 million soums, and C's share was 100 million soums.

The law stipulates that each participant in a legal entity is obliged to fully contribute to the charter fund (charter capital) of the company within the period established by the constituent documents, which may not exceed one year from the date of state registration of the company.

According to Article 17 of the Law of the Republic of Uzbekistan "On Joint Stock Companies and Protection of Shareholders' Rights," the minimum size of the charter fund (charter capital) of a company may be established by licensing requirements.

In accordance with the Decree of the President of the Republic of Uzbekistan No. PF-5495 dated 1 August 2018, "On measures to radically improve the investment climate in the Republic of Uzbekistan," the minimum share of foreign investment in the charter capital of enterprises with the participation of foreign investment is set at 15 percent, and the minimum size of the charter fund is 400 million soums.

The charter fund of a legal entity consists of contributions made by the founders during the state registration of the legal entity, expressed in their nominal value, and serves as a guarantee of the right to a refund of the contributed funds.

2. Part two of the commented article provides that upon identification of the circumstances specified in part one of this article, the liquidation commission (liquidator) is obliged, in order to assess the financial stability of the legal entity and satisfy the claims of creditors, to file an application for insolvency with the court or with the relevant government agencies, including the state tax service authorities.

These measures ensure the liquidation of a legal entity on legal grounds and guarantee the protection of the interests of creditors.

According to paragraph 30 of the Regulation "On the Procedure for Voluntary Liquidation of Business Entities and Termination of Their Activities," approved by Resolution No. 704 of the Cabinet of Ministers of the Republic of Uzbekistan dated 21 August 2019, if it is determined that creditors' claims cannot be fully satisfied, the liquidator is obligated to file a petition with the economic court to initiate insolvency proceedings against the commercial organization. Once a business entity is declared bankrupt, the voluntary liquidation procedure ceases, and further proceedings are carried out in accordance with insolvency legislation.

The law establishes that upon discovery of the fact of insufficient value of the property of a legal entity being liquidated, the liquidation commission (liquidator) is obliged to apply to the economic court with a statement to initiate insolvency proceedings against the legal entity being liquidated or to apply to the state tax service authorities for the application of the appropriate measures provided for by law.

When filing an insolvency petition for a liquidated legal entity, it must be accompanied by documents confirming that the value of the legal entity's assets is insufficient to satisfy creditors' claims. The law does not specify the procedure for filing an insolvency petition for a liquidated legal entity or the list of documents required to be attached. In this case, evidence of the insufficient value of the liquidated legal entity's assets to satisfy creditors' claims may include financial statements, as well as an opinion or report from an independent appraisal organization.

Article 239. Features of Consideration of a Case of Insolvency of a Legal Entity Being Liquidated

The court makes a decision to declare the liquidated legal entity bankrupt and initiate liquidation proceedings, and appoints a liquidation manager.

The procedures of observation, judicial rehabilitation and external management in the event of insolvency of a legal entity being liquidated are not applied.

Creditors have the right to present their claims to a legal entity being liquidated within one month from the date of publication of the announcement of recognition of the legal entity being liquidated as bankrupt.

The commented article establishes that when considering a case of insolvency of a legal entity being liquidated, the court immediately introduces bankruptcy and liquidation proceedings, appoints a liquidation manager, provides for the non-application of certain procedures, and also establishes the procedure for creditors to submit claims within one month.

1. Part one of the commented article provides that the court makes a decision to declare a legal entity in the process of liquidation bankrupt and to introduce official insolvency proceedings against it, and also appoints a specially authorized person—a liquidation manager—to carry out this procedure, which helps ensure that the liquidation is carried out on legal grounds and under judicial control.

From the moment the court makes a decision to declare a legal entity being liquidated bankrupt and to commence liquidation proceedings, the powers of the liquidator of the legal entity being liquidated are terminated, and the implementation of liquidation measures in relation to the legal entity in the process of liquidation is carried out by a liquidation manager appointed by the court.

According to paragraph 13 of the Regulation "On the Procedure for the Voluntary Liquidation of Business Entities and Termination of Their Activities," approved by Appendix No. 1 to Resolution No. 704 of the Cabinet of Ministers of the Republic of Uzbekistan dated 21 August 2019, the grounds for terminating the powers of a liquidator of a business entity undergoing voluntary liquidation are established. Specifically, if a business entity is declared bankrupt, the liquidator's powers terminate on the date of the court's decision declaring the business entity bankrupt and initiating liquidation proceedings.

When applying to the court with an application for declaring a legal entity being liquidated bankrupt, the candidate for liquidation manager is presented by the applicant.

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54. When filing an application for declaring a liquidated legal entity bankrupt, the candidate for liquidation manager is indicated by the applicant.

According to Article 142 of the Law, when deciding to declare a debtor bankrupt, the court appoints a liquidation manager in the same manner as an external manager. If an enterprise with a state-owned stake in its charter fund (charter capital) is declared bankrupt, the authorized state body also has the right to nominate a liquidation manager.

The law stipulates that the candidate for an external manager must be approved by a creditors' meeting; the candidate may be proposed by any creditor or an authorized government agency. If the creditors' meeting fails to nominate a candidate, the court appoints an external manager from among the candidates proposed by the authorized government agency. Furthermore, the appointment of an external manager occurs simultaneously with the initiation of external management proceedings. If the appointment cannot be made simultaneously with the initiation of

external management proceedings, the court is obligated to appoint an external manager within one month of the initiation of external management proceedings.

From the moment of appointment of the liquidation manager, the management of the affairs of the legal entity debtor being liquidated is assigned to the liquidation manager, and the powers of the owner to manage and dispose of the property of the debtor are terminated.

2. In the event of insolvency of a legal entity undergoing liquidation, financial recovery procedures typically used in insolvency cases, such as observation, judicial rehabilitation, and external management, are not applicable. According to this rule, the non-application of observation, judicial rehabilitation, and external management procedures to a legal entity undergoing liquidation has special legal significance.

These procedures are generally aimed at preserving the business entity's operations, restoring its solvency, or ensuring its economic stability. However, the decision to liquidate a legal entity means that its resumption of operations is impossible. Therefore, applying such mechanisms to an entity with no prospects for continued operations is inappropriate from both a legal and economic perspective.

The commented article is directly aimed at conducting the liquidation procedure, ensuring fast and effective protection of creditors' rights, reducing corruption risks and costs, and increasing the efficiency of the insolvency procedure.

3. Part three of the commented article establishes an important mechanism providing legal guarantees for creditors. Granting creditors a one-month period from the date of publication of the notice, on the one hand, serves to create equal conditions for all creditors: each creditor has the opportunity to promptly file their claims and, in accordance with the procedure established by law, protect their rights to the debtor's property. On the other hand, establishing a clear deadline facilitates the effectiveness of the liquidation procedure, as the liquidator has the necessary time in advance to distribute property, evaluate the debtor's assets, and identify creditors.

Information subject to publication in the media in accordance with Articles 53 and 54 of the Law, in accordance with paragraph 1 of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 160 dated 11 June 2009, is published in the economic newspaper Business-Daily Birzha and (or) on the official website of the authorized government agency.

Furthermore, the one-month period established by this article prevents negative consequences associated with creditors' late filing of their claims and the loss of the opportunity to exercise their rights to the debtor's property. This ensures the efficient use of financial resources during the bankruptcy process, guarantees the legality and transparency of the liquidation process, and contributes to maintaining the stability of civil and financial relations.

Article 240. Consequences of Refusal to Liquidate a Legal Entity Due to Insolvency

Violation of the requirements provided for in part two of Article 238 of this Law shall be grounds for refusing to enter a record of the liquidation of a legal entity into the unified state register of legal entities.

The chairman of the liquidation commission or the liquidator who has violated the requirements provided for in part two of Article 238 of this Law shall bear subsidiary liability for unsatisfied claims for monetary obligations and (or) taxes and duties of the legal entity being liquidated.

The commented article establishes that the violation of the established requirements by the liquidation commission or liquidator is grounds for refusing to enter an entry on the liquidation of a legal entity in the unified state register, as well as for imposing subsidiary liability on the chairman of the liquidation commission or liquidator for unsatisfied monetary obligations, taxes and duties of the liquidated legal entity.

1. According to this norm, if in relation to a legal entity in relation to which a decision has been made on liquidation due to the fact that it did not carry out financial and economic activities within the timeframes established by law and (or) did not form its charter fund (charter capital), it is established that the value of its property is insufficient to satisfy the claims of creditors, the liquidation commission (liquidator) is obliged to apply to the court with an application to initiate a case on insolvency or to the state tax service authorities for the adoption of the appropriate measures provided for by law.

If the liquidation commission or liquidator fails to file a petition with the court or tax authorities in the prescribed manner to initiate insolvency proceedings, the legal entity cannot be considered liquidated from a legal perspective. Therefore, the entry of the liquidation in the unified state register of legal entities is denied.

The legal significance of this requirement is to prevent the concealment of insolvency indicators or the unlawful simplification of liquidation procedures, to ensure the protection of creditors' interests, and to ensure the transparency of the liquidation process. If indicators of insolvency exist, a legal entity is required to undergo insolvency proceedings in accordance with the procedure established by law; otherwise, the recognition of its liquidation will have no legal force.

2. The content of the second part of the commented article establishes the personal liability of the chairman of the liquidation commission or the liquidator in the process of fulfilling the financial obligations of the liquidated legal entity and satisfying the claims of creditors.

The requirements stipulated by law include the obligation to apply to the court or tax authorities in the prescribed manner to initiate insolvency proceedings in the event that the value of the property of a legal entity, in respect of which a decision

has been made to liquidate it due to the fact that it did not carry out financial and economic activities within the established timeframes and (or) did not form its charter fund (charter capital), is insufficient to satisfy the claims of creditors.

This provision is aimed at protecting creditors' interests during the forced liquidation of a legal entity and strengthening the liability of the liquidation commission. According to it, if a legal entity's assets are insufficient to satisfy creditors' claims and the chairman of the liquidation commission or the liquidator fails to comply with legal requirements to file insolvency proceedings with the court or tax authorities, they bear subsidiary liability to creditors.

The main purpose of this rule is to prevent violations such as improper distribution of the property of a legal entity during the liquidation process, failure to satisfy creditors' claims, or failure to pay taxes and duties within the established timeframes.

The liquidator's personal subsidiary liability ensures qualified, transparent, and lawful actions, strengthens financial control, and protects the rights of creditors, state tax authorities, and other interested parties. In this case, the legal entity's outstanding debts can be recovered from the personal assets of the liquidation commission chairperson or the liquidator.

Article 241. Features of Filing an Application for Recognition of an Absent Debtor as Insolvent

In the event that the individual entrepreneur debtor who has ceased his activities or the head of a legal entity being liquidated are absent and it is not possible to establish their location (place of residence), an application for recognition of the absent debtor as insolvent may be submitted by a creditor, an authorized state body, a state tax service body or another authorized body, regardless of the amount of accounts payable.

The commented article provides for the possibility of creditors or authorized bodies filing an application for recognition of the insolvency of an individual entrepreneur debtor who has ceased operations and the location or place of residence of whose director cannot be determined, or of a legal entity being liquidated, regardless of the amount of accounts payable.

In this case, in the absence of the debtor's manager, in addition to the creditor, authorized government agencies, state tax authorities, or other authorized bodies may also file an application. This mechanism eliminates the legal gap that may arise due to the debtor's obscurity or the cessation of its activities and ensures that insolvency proceedings are initiated without undue delay.

The allocation of the category of absent debtors is due to the specifics of situations in which grounds arise for applying special legal norms to them.

Chapter 16 of the Law combines provisions providing for the consideration of cases of insolvency of a liquidated legal entity and an absent debtor on the basis of simplified procedures, but these are distinct procedures.

A "liquidated legal entity" should be understood as a legal entity that does not carry out its activities, since it is not the manager who acts on behalf of the liquidated legal entity, but the liquidation commission.

An absent debtor is defined as an individual entrepreneur who has ceased operations, i.e., a natural person engaged in entrepreneurial activity, or a legal entity whose director's address and location cannot be determined, as well as a legal entity that has ceased operations. Therefore, if the director is absent but the company continues to operate, an insolvency petition is filed with the economic court in accordance with the standard procedure. In this case, before the legal entity's operations are terminated, the founders must take steps to appoint a new director to prevent the application of simplified insolvency procedures.

The absence of the director of a legal entity undergoing liquidation and the impossibility of establishing their location (residence) means that the legal entity has effectively ceased financial and economic activity, is not making payments, is not located at the address specified in its constituent documents or at its state registration, and that its location cannot be determined. If the absent debtor is an individual entrepreneur, it should be understood that the natural person has ceased business activity, is absent from their place of residence, and their whereabouts are unknown.

The term "absent debtor" used in the Law has no connection with the process of declaring a citizen missing. According to Article 33 of the Civil Code, if there is no information about a citizen's whereabouts at their place of residence for one year, the court may declare that citizen missing upon the application of interested parties.

The following may serve as evidence of the debtor's absence, that is, documents confirming the absence of an individual entrepreneur or a natural person who has lost the status of an individual entrepreneur, or a legal entity debtor, as well as the impossibility of establishing his location: a) a certificate issued by the address bureau on the person's removal from the register and departure to another territory; b) an act drawn up with the participation of representatives of local self-government bodies, a homeowners' partnership stating that the person does not live at the registered address, as well as documents confirming the death of the person or his imprisonment.

An application for declaring an absent debtor bankrupt (including declaring a debtor bankrupt who has no property) may be filed with the economic court by a creditor, an authorized state body for insolvency cases, state tax authorities, or other authorized bodies.

If the applicant does not provide evidence of the absence of the debtor or his property, but the applicant has complied with the conditions for accepting the application for consideration in the general procedure, the economic court may

accept the application for declaring the debtor bankrupt on general grounds without applying the provisions on the insolvency of an absent debtor.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On certain issues of application by economic courts of the norms of the Law of the Republic of Uzbekistan "On Insolvency""

54. When filing an application to declare an absent debtor bankrupt, evidence must be presented to the court confirming the absence of the individual entrepreneur debtor who has ceased his activities, or the manager of a liquidated legal entity, as well as the impossibility of establishing their location.

Such evidence may include: a certificate issued by the address bureau regarding the deregistration and departure of the person outside the region; a report drawn up with the participation of representatives of the local self-government body or homeowners' partnership regarding the individual's non-residence at the place of registration.

An absent debtor should be understood to mean not only the absence of the director but also the absence of the business entity's assets. This circumstance can be confirmed by a corresponding act at the location (mailing address) of the debtor, drawn up with the participation of representatives of the local self-government body, homeowners' partnership, the owner of the residential or non-residential premises, and/or the bailiff, or by a ruling by the bailiff to return the writ of execution without enforcement due to the debtor's lack of assets.

Evidence of the debtor's absence also includes documents confirming the fact of the person's death or the person's imprisonment.

The fact that the debtor has no property may be confirmed by a document drawn up at the location of the debtor (postal address) with the participation of representatives of local self-government bodies, a private homeowners' partnership, owners of residential or non-residential premises and (or) the applicant (creditor), or by a ruling by a bailiff to return the writ of execution without execution due to the debtor having no property.

If the applicant does not provide evidence of the absence of the debtor or his property, but the applicant has complied with the conditions for accepting the application for proceedings in the general procedure, the economic court may accept the application for declaring the debtor bankrupt on general grounds without applying the provisions on the insolvency of an absent debtor.

If the debtor's manager or individual entrepreneur is present but the assets are missing, the insolvency case is also subject to consideration in a simplified manner.

Article 242. Consideration of the Case of Insolvency of an Absent Debtor

The court, within two weeks from the date of acceptance of the application for recognition of the absent debtor as bankrupt, makes a decision to recognize the absent debtor as bankrupt and to initiate liquidation proceedings.

Observation, judicial rehabilitation and external management procedures are not applied in the insolvency case of an absent debtor.

The court decision is sent to the authorized state body, which, within one week from the date of receipt of this decision, submits to the court a candidate for liquidation manager.

The liquidator shall notify in writing of the recognition of the absent debtor as bankrupt all creditors known to him, who may present their claims to the liquidator within one month from the date of receipt of the notification.

At the request of the liquidation manager, upon discovery of the property of the absent debtor, the court may issue a ruling to terminate the simplified insolvency procedure and transition to the general insolvency procedures provided for by this Law.

The commented article establishes a simplified procedure for considering the insolvency case of an absent debtor, defining the timeframes for considering the case, procedures that are not subject to application, the procedure for submitting a candidate for a liquidation manager, as well as the procedure for transitioning to general insolvency procedures.

1. Part one of this article is aimed at ensuring the prompt and effective commencement of insolvency proceedings against absent debtors. It stipulates that the court must make a decision within two weeks of the date the application is accepted for proceedings. Furthermore, a time limit is established within which the court must resolve the issue of declaring the debtor bankrupt and make a procedural decision to initiate liquidation proceedings.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On certain issues of application by economic courts of the norms of the Law of the Republic of Uzbekistan "On Insolvency""

16. Courts should bear in mind that the time limits for considering an insolvency case provided for in Article 50 of the Law do not apply when considering a case on declaring an absent debtor bankrupt.

This period is aimed at preventing unjustified delays in insolvency proceedings, promptly protecting the interests of creditors and authorized bodies, and preventing the emergence of a legal gap in cases where the debtor's location is unknown or cannot be determined.

2. This provision establishes a special simplified procedure for insolvency proceedings involving an absent debtor. The non-application of observation, judicial

rehabilitation, and external management procedures in insolvency proceedings involving an absent debtor is due to several circumstances.

Firstly, the use of these procedures in this case is inappropriate, as they require the active participation of the debtor. Observation and judicial rehabilitation are aimed at restoring solvency, financial stability, and negotiating with creditors. However, external management also involves monitoring the debtor's activities and temporarily transferring management to an authorized person. If the debtor's location is unknown or the debtor is absent, these mechanisms are impossible, as restructuring and control measures cannot be carried out without their active participation.

Secondly, this restriction allows creditors and authorized bodies to conduct proceedings in a prompt and simplified manner. Creditors are given the opportunity to establish the insolvency of an absent debtor through the court and distribute their assets in accordance with the law. Thus, proceedings are carried out efficiently, continuously and lawfully.

3. The third part of the commented article provides a mechanism aimed at ensuring clear and consistent relationships between the court, the authorized state body, and the liquidator in insolvency cases involving an absent debtor. It is established that the court decision is sent to the authorized state body, which is obligated to submit a candidate for the position of liquidator to the court within one week of its receipt.

Resolution of the Plenum of the Supreme Court of the Republic of Uzbekistan No. 13 of 23 June 2025 "On certain issues of application by economic courts of the norms of the Law of the Republic of Uzbekistan "On Insolvency""

54. When considering a case of insolvency of an absent debtor, the authorized state body shall present a candidate for liquidation manager within one week from the date of receipt of the court decision.

The main purpose of this procedure is to ensure the continuous, prompt, and effective conduct of proceedings related to the assets of an absent debtor and the interests of creditors. Furthermore, the prompt appointment of a candidate ensures the preservation of assets, the satisfaction of creditors' claims with minimal loss of value, and the legal conduct of insolvency proceedings. This provision establishes clear responsibilities for the court and state bodies and serves as a necessary legal mechanism for ensuring the effectiveness of proceedings and protecting the interests of creditors and the state.

4. This provision is aimed at protecting creditors' rights and guaranteeing transparency in the insolvency proceedings of an absent debtor. The liquidator, within the limits of his or her authority, notifies all known creditors in writing, thereby providing them with the opportunity to file their claims promptly and in full.

Establishing a rule that creditors have the right to file their claims within one month of receiving notice ensures equality of arms in insolvency proceedings. This procedure guarantees the efficient organization of the bankruptcy process, the rapid and lawful distribution of assets and the legitimate satisfaction of creditors' claims.

5. If the assets of an absent debtor are discovered, it becomes possible to conduct insolvency proceedings more efficiently and effectively. Upon the filing of a corresponding petition by the liquidation manager, the court has the right to issue a ruling switching from the simplified procedure to the general procedure. Moreover, if, during insolvency proceedings under the simplified procedure, the liquidation manager establishes the existence of the debtor's assets, the court, based on the liquidation manager's petition, will terminate the simplified insolvency procedure and consider the case under the general insolvency procedure.

The assets of an absent debtor should be understood to include all civil rights assets at their disposal subject to alienation, both tangible and intangible (including securities, land and accounts receivable). The discovery of accounts receivable does not, in itself, constitute grounds for terminating the simplified procedure and transitioning to the general insolvency procedure. The core principle of this mechanism is that, upon discovery of the absent debtor's assets, their effective distribution is ensured to satisfy creditors' claims.

These rules do not apply to natural persons and individual entrepreneurs, as well as to cases of initiating proceedings on the insolvency of a debtor, considered in accordance with the simplified procedure.

From a practical perspective, the transition from a simplified to a general procedure provides creditors with greater legal protection and the opportunity to satisfy their claims in accordance with the procedure established by law, and also strengthens control by the court and the liquidator, ensuring the transparency and efficiency of the insolvency procedure.

CHAPTER 17. FINAL PROVISIONS

Article 243. Unlawful Actions Resulting in Insolvency

Unlawful actions that lead to insolvency are understood to mean violations associated with the intentional actions of officials or the owner of the debtor's property, or creditors or other persons who caused damage to the debtor or creditors.

Unlawful actions also include:

concealment of all or part of the debtor's property or his obligations;

concealment, destruction, distortion, falsification of any accounting document related to the implementation of the debtor's business activities;

transfer of property for the purpose of concealment (including funds) to other legal and natural persons;

failure to make a required entry in accounting documents;

sale, destruction, or pledging as collateral all or part of the debtor's property, received on credit and unpaid;

increasing the insolvency of the debtor in the personal interests of officials or the owner of the debtor's property or in the interests of third parties;

irrevocable diversion of working capital;

bringing to insolvency deliberately with the purpose of causing damage to creditors;

preferential satisfaction of the creditor's claims to the detriment of other creditors, consent to such satisfaction;

intentional self-liquidation of a debtor with the aim of avoiding the fulfillment of monetary obligations and (or) tax and duty obligations.

The commented article defines the concept of "unlawful actions that lead to insolvency" and also establishes a list of actions recognized by law as unlawful.

1. This provision explains the legal content of unlawful actions that lead to insolvency. According to this provision, if officials, the owner of the debtor's property, creditors, or other persons intentionally commit actions that worsen the debtor's financial situation or cause damage to creditors, such actions are considered unlawful actions that lead to insolvency.

In this case, the primary focus is on the intentional nature of such actions and the resulting damage to the debtor or creditors. Therefore, such actions are viewed not as a normal business risk or error, but as a deliberate violation of legal requirements aimed at causing or aggravating insolvency.

2. This provision defines the main types of unlawful actions that lead to insolvency or damage the rights of creditors. These include concealing or falsifying the debtor's assets, liabilities, or accounting records, alienating assets in favor of others, misusing working capital, preferential treatment of certain creditors**,** and intentionally driving the debtor into insolvency.

These actions are aimed at concealing the debtor's true financial situation, reducing its assets, or limiting the ability to satisfy creditors' legitimate claims. Therefore, the legislature views such actions as an infringement on the rights and legitimate interests of creditors and a violation of the principles of fair insolvency proceedings.

Article 244. Dispute Resolution

Disputes arising during the insolvency process are resolved in accordance with the procedure established by law.

The commented article establishes that all disputes arising during insolvency proceedings are subject to resolution by authorized bodies in accordance with the procedural order established by law.

This provision enshrines the principle of legality, the protection of the rights of parties to insolvency-related relationships, and the resolution of disputes using legal mechanisms provided by law. Disputes may be resolved in court or through other procedures established by law.

See also: International Commentary, p. 807.

Article 245. Liability for Violation of Insolvency Legislation

Persons guilty of violating insolvency legislation are liable in accordance with the established procedure.

The article under comment is a reference norm establishing liability for violation of insolvency legislation.

This provision provides for the application of liability measures established by law to individuals who violate insolvency law requirements. This provision is universal in nature and can be applied to all participants in insolvency proceedings—the debtor, officials, property owners, creditors, judicial managers, and other participants.

According to this provision, if a person violates legal requirements during insolvency proceedings, for example, conceals property, falsifies documents, violates the rights of creditors, unreasonably withdraws assets, or fails to comply with the requirements of the court and the judicial manager, they may be held liable in accordance with the established procedure.

The use of the phrase "in accordance with the established procedure" in this regulation means that the issue of liability is regulated not only by this Law but also by other legal acts, including the Civil Code, the Code of Administrative Responsibility (CAR), the Criminal Code, and the EPC. Thus, the legislator seeks to

ensure legality, good faith, and the protection of creditors' interests in the area of insolvency.

It should be noted that legal liability is provided not only for violations of this Law but also for other regulatory legal acts governing insolvency matters. Depending on the nature of the offense, criminal, administrative, civil, and disciplinary liability may apply.

For example, a judge of the economic court, in accordance with part four of Article 96 of the Law, has the right, at the request of a meeting of creditors, persons who have provided security for the fulfillment of obligations, or a rehabilitation manager, containing information about the failure to implement or improper implementation of the judicial rehabilitation plan by the manager of the debtor, or about the commission by the manager of the debtor of actions (inaction) that violate the rights and legitimate interests of the debtor, creditors and persons who have provided security for the fulfillment of obligations, to apply a disciplinary measure in the form of removal of the manager of the debtor from the performance of his duties.

An example of administrative liability for guilty individuals is the liability provided for in Article 215^1 of the CAR. According to this article, failure or untimely submission by officials to state insolvency authorities of materials on the financial and economic activities of enterprises entails a fine of three to five times of the basic calculation amount. If the same offense is committed repeatedly within one year of the imposition of the administrative penalty, it entails a fine of five to ten times of the basic calculation amount.

Article 10 of the Law establishes subsidiary liability for the debtor's manager, members of the liquidation commission, or the liquidator. According to this provision, failure by the debtor's manager, members of the liquidation commission, or the liquidator to file an application to initiate insolvency proceedings against the debtor with the court after the expiration of the period stipulated in part 3 of Article 9 of the Law entails subsidiary liability for the debtor's monetary obligations and/or obligations to pay taxes and duties that arose after the expiration of the specified period. According to part four of Article 48 of the Civil Code, if the insolvency of a legal entity is caused by the unlawful actions of a person who is a founder (participant) with the right to issue binding instructions to the legal entity, or of an owner of the legal entity's property, or of a person who is a member of the legal entity's governing body, or of a person managing the debtor's affairs, then, if the legal entity's assets are insufficient, such person may be held subsidiarily liable for the legal entity's obligations in accordance with the law. These cases may be cited as examples of the civil liability of the guilty parties.

The Rules for Identifying Signs of False Insolvency, Concealment of Insolvency, and Deliberate Insolvency, approved as an appendix to the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 224 of 14 August 2013, are an

important source for identifying persons guilty of violating insolvency legislation and legally assessing their actions.

In the sphere of criminal legislation, liability for violation of bankruptcy regulations is provided for by Articles 180-181[1] of the Criminal Code. Article 180 of the Criminal Code establishes that fictitious insolvency, that is, a declaration by a legal entity or natural person or an individual entrepreneur of their inability to fully fulfill monetary obligations to creditors and (or) obligations to pay taxes and duties, knowingly having the economic ability to fulfill such obligations in full, if this resulted in causing significant damage to creditors, is punishable by a fine in the amount of one hundred and fifty to two hundred and fifty basic calculation amount, or compulsory community service for a term of three hundred to three hundred and sixty hours, or correctional labor for a term of two to three years, or restriction of liberty for a term of two to three years, or imprisonment for a term of two to three years.

According to Article 181 of the Criminal Code, if a legal entity, individual, or individual entrepreneur knowingly submits false information and documents, distorts financial statements, or otherwise deliberately conceals their insolvency, resulting in major damage to creditors, such an act is punishable by a fine in the amount of one hundred fifty to two hundred fifty basic calculation amount, or compulsory community service for a term of three hundred to three hundred sixty hours, or correctional labor for a term of two to three years, or restriction of liberty for a term of two to three years, or imprisonment for a term of two to three years. Article 181[1] of the Criminal Code provides that deliberate insolvency, that is, intentional creation or increase of insolvency of a legal entity by an official, founder (participant), owner of its property, or a natural person or individual interpreneur out of personal interest or in the interests of other persons, if this has led to the insolvency of this legal entity, natural person, or individual interpreneur and has resulted in causing major damage to creditors, shall be punishable by a fine in the amount of one hundred fifty to two hundred fifty basic calculation amount, or compulsory community service for a term of three hundred to three hundred sixty hours, or correctional labor for a term of two to three years, or restriction of liberty for a term of two to three years, or imprisonment for a term of two to three years.

Article 246. Recognition of Certain Legislative Acts of the Republic of Uzbekistan or Certain Parts Thereof as Invalid

To declare the following to be no longer in force:

1) Law of the Republic of Uzbekistan dated 5 May 1994 No. 1054-XII "On Bankruptcy" (Bulletin of the Supreme Council of the Republic of Uzbekistan, 1994, No. 5, Art. 130);

2) Resolution of the Supreme Council of the Republic of Uzbekistan dated 5 May 1994 No. 1055-XII "On the procedure for introducing the Law of the

Republic of Uzbekistan "On Bankruptcy" (Bulletin of the Supreme Council of the Republic of Uzbekistan, 1994, No. 5, Art. 131);

3) Section VI of the Law of the Republic of Uzbekistan dated 30 August, 1996 No. 281-I "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan" (Bulletin of the Oliy Majlis of the Republic of Uzbekistan, 1996, No. 9, Art. 144);

4) Section X of the Law of the Republic of Uzbekistan dated 30 August, 1997 No. 485-I "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan" (Bulletin of the Oliy Majlis of the Republic of Uzbekistan, 1997, No. 9, Art. 241);

5) paragraph 7 of the Law of the Republic of Uzbekistan dated 1 May 1998 No. 621-I "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan" (Bulletin of the Oliy Majlis of the Republic of Uzbekistan, 1998, No. 5-6, art. 102);

6) Law of the Republic of Uzbekistan dated 29 August 1998 No. 668-I "On Amendments and Additions to the Law of the Republic of Uzbekistan "On Bankruptcy" (Bulletin of the Oliy Majlis of the Republic of Uzbekistan, 1998, No. 9, Art. 168);

7) Section X of the Law of the Republic of Uzbekistan dated 20 August 1999 No. 832-I "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan" (Bulletin of the Oliy Majlis of the Republic of Uzbekistan, 1999, No. 9, Art. 229);

8) Section XIV of the Law of the Republic of Uzbekistan dated 26 May 2000 No. 82-II "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan" (Bulletin of the Oliy Majlis of the Republic of Uzbekistan, 2000, No. 5-6, Art. 153);

9) paragraph 8 of the Law of the Republic of Uzbekistan dated 15 December 2000 No. 175-II "On Amendments and Additions, as well as Recognition of Certain Legislative Acts of the Republic of Uzbekistan as Invalid" (Bulletin of the Oliy Majlis of the Republic of Uzbekistan, 2001, No. 1-2, Art. 23);

10) Law of the Republic of Uzbekistan dated 24 April 2003 No. 474-II "On Amendments and Additions to the Law of the Republic of Uzbekistan "On Bankruptcy" (Bulletin of the Oliy Majlis of the Republic of Uzbekistan, 2003, No. 5, Art. 63);

11) Law of the Republic of Uzbekistan dated 20 December 2005 No. ZRU-15 "On Amendments and Additions to Articles 110, 111, 133 and 135 of the Law of the Republic of Uzbekistan "On Bankruptcy" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2005, No. 12, Art. 414);

12) Article 8 of the Law of the Republic of Uzbekistan dated 31 December 2008 No. ZRU-197 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Improvement of Tax Legislation" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2008, No. 12, Art. 640);

13) Article 10 of the Law of the Republic of Uzbekistan dated 14 January 2009 No. ZRU-199 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Improvement of Enforcement Proceedings" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2009, No. 1, Art. 1);

14) Article 1 of the Law of the Republic of Uzbekistan dated 7 April 2009 No. ZRU-206 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2009, No. 4, Art. 133);

15) Article 5 of the Law of the Republic of Uzbekistan dated 9 September 2009 No. ZRU-216 "On Amendments to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Adoption of the Law of the Republic of Uzbekistan "On the Securities Market" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2009, No. 9, Art. 330);

16) Article 3 of the Law of the Republic of Uzbekistan dated 17 September 2010 No. ZRU-257 "On Amendments to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Improvement of Appraisal Activities" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2010, No. 9, Art. 337);

17) Law of the Republic of Uzbekistan dated 3 October 2011 No. ZRU-300 "On Amendments and Additions to the Law of the Republic of Uzbekistan "On Bankruptcy" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2011, No. 10, Art. 270);

18) Article 1 of the Law of the Republic of Uzbekistan dated 25 December 2012 No. ZRU-343 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Adoption of the Main Directions of Tax and Budget Policy for 2013, as well as the Reduction of the Frequency of Tax Reporting" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2012, No. 12, Art. 334);

19) Article 6 of the Law of the Republic of Uzbekistan dated 14 May 2014 No. ZRU-372 "On Amendments and Additions, as well as Recognition of Certain Legislative Acts of the Republic of Uzbekistan as Invalid" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2014, No. 5, Art. 130);

20) Article 6 of the Law of the Republic of Uzbekistan dated 4 September 2014 No. ZRU-373 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2014, No. 9, Art. 244);

21) Article 6 of the Law of the Republic of Uzbekistan dated 11 December 2014 No. ZRU-381 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2014, No. 12, Art. 343);

22) Article 4 of the Law of the Republic of Uzbekistan dated 20 August 2015 No. ZRU-391 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan Aimed at Further Strengthening the Reliable Protection of Private Property, Business Entities, and Removing Barriers to Their Accelerated Development" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2015, No. 8, Art. 312);

23) Article 17 of the Law of the Republic of Uzbekistan dated 14 September 2017 No. ZRU-446 "On Amendments and Additions, as well as Recognition of Certain Legislative Acts of the Republic of Uzbekistan as Invalid" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2017, No. 9, Art. 510);

24) Article 3 of the Law of the Republic of Uzbekistan dated 16 October 2017 No. ZRU-448 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2017, No. 10, Art. 605);

25) Article 1 of the Law of the Republic of Uzbekistan dated 30 December 2017 No. ZRU-455 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Improvement of Tax Administration" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2017, No. 12, Art. 773);

26) Article 1 of the Law of the Republic of Uzbekistan dated 29 January 2018 No. ZRU-463 "On Amendments and Additions, as well as Recognition of Certain Legislative Acts of the Republic of Uzbekistan as Invalid" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2018, No. 1, Art. 5);

27) Article 1 of the Law of the Republic of Uzbekistan dated 20 March 2019 No. ZRU-531 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Adoption of Additional Measures to Improve the Business Climate in the Country" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2019, No. 3, Art. 166);

28) Article 2 of the Law of the Republic of Uzbekistan dated 22 October 2019 No. ZRU-572 "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with Strengthening the Legal Protection of Creditors and Improving the Mechanisms for Financing Entrepreneurial Activities" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2019, No. 10, Art. 671);

29) Article 14 of the Law of the Republic of Uzbekistan dated 3 December 2019 No. ZRU-586 "On Amendments to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Improvement of the Procedure for Determining the Amount of Wages, Pensions and Other Payments" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2019, No. 12, Art. 880);

30) Law of the Republic of Uzbekistan dated 13 December 2019 No. ZRU-594 "On Amendments and Additions to the Law of the Republic of Uzbekistan "On Bankruptcy" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2019, No. 12, Art. 888);

31) Article 44 of the Law of the Republic of Uzbekistan dated 21 April 2021 No. ZRU-683 "On Amendments to Certain Legislative Acts of the Republic of Uzbekistan" (Bulletin of the Chambers of the Oliy Majlis of the Republic of Uzbekistan, 2021, Appendix to No. 4).

The commented article establishes the recognition of previously existing legislative acts in the area of insolvency, as well as certain individual provisions, as having lost force.

Article 247. Ensuring the Implementation, Communication, and Explanation of the Essence and Meaning of this Law

The Agency for Management of State Assets of the Republic of Uzbekistan and other interested organizations shall ensure the implementation, dissemination to the executors, and explanation to the population of the essence and significance of this Law.

The commented article imposes on authorized state bodies the responsibility not only to ensure the practical implementation of this Law but also to communicate its content and essence to the public, interested organizations, and law enforcement entities. According to this provision, the Agency for State Assets Management of the Republic of Uzbekistan and other interested organizations are obligated to ensure the correct and effective application of the Law's provisions, communicate them to those implementing it, and conduct public awareness campaigns regarding the content, purpose, and significance of this Law.

This regulation is aimed at not limiting itself to the adoption of the Law, but rather ensuring its correct application in practice and increasing the effectiveness of its implementation by raising the level of legal awareness and legal culture.

Article 248. Bringing Legislation into Line with this Law

To the Cabinet of Ministers of the Republic of Uzbekistan:
bring government decisions into compliance with this Law;
ensure the revision and repeal by government bodies of their regulatory legal acts that contradict this Law.

The commented article imposes the responsibility on the Cabinet of Ministers of the Republic of Uzbekistan to bring current legislation and subordinate legal acts into compliance with the requirements of this Law following its adoption. According to this provision, the Cabinet of Ministers is obligated to bring its resolutions into compliance with this Law, as well as to ensure the revision or repeal of legal acts adopted by government bodies that contradict this Law.

This norm is aimed at ensuring the consistency and coherence of the legislative system, as well as at creating a legal basis for the full and effective application of the provisions of this Law.

Article 249. Entry into Force of this Law

This Law shall enter into force on the day of its official publication.
Chapter 14 of this Law shall come into force on 1 January 2023.

The commented article defines the effective date of this Law. According to it, the Law shall enter into force on the day of its official publication, meaning that its provisions shall acquire legal force and be applicable from that date. However, a separate effective date has been established for Chapter 14 of the Law: the provisions of this chapter shall be applicable from 1 January 2023.

This regulation is aimed at the gradual implementation of the provisions of the Law, providing law enforcement agencies and participants in relevant legal relations with the opportunity to adapt to new legal mechanisms.

SCHEDULE 1

INTERNATIONAL COMMENTARY

INTRODUCTION

This international commentary was prepared in relation to the Law of the Republic of Uzbekistan on Insolvency, passed by the Legislative Chamber on 16 August 2021 and approved by the Senate on 30 September 2021 (**Insolvency Law**). It is current as at 1 April 2026.

Purpose of the International Commentary

Insolvency, both business and personal, is a worldwide phenomenon. Laws addressing insolvency have existed since at least Roman times. Modern insolvency laws across the world have undergone multiple phases of reform and refinement, often after financial crises such as the Asian financial crisis of the 1990s, the global financial crisis that commenced in 2008, and the more recent COVID-19 pandemic.

Insolvency laws differ across jurisdictions, reflecting each country's legal, cultural, and historical traditions. Nonetheless, internationally, there has been a growing convergence of approach in the structures, tools, and practices of insolvency laws, as well as in the underlying principles, purposes, and policies.

In many areas, certain structures, tools, and practices "*have been widely recognised and accepted as good practices internationally.*"[2] Recent examples include specific regulation of entrepreneur insolvency[3] and a discernible shift away from "creditor friendly" structures towards "value-preservation friendly" structures. The principles, purposes, and standards underpinning these practices are also internationally recognized as valid and economically sound.

Naturally, national laws differ in how they incorporate these structures, tools, and practices—for instance, in their drafting, identification of exceptions, and operational frameworks. Despite these differences, many of the underlying principles, purposes, and standards are largely the same. Therefore, understanding these underlying matters may be helpful background and context for interpreting and applying the various structures and tools in a country's insolvency law.

Uzbekistan's Insolvency Law incorporates, within its chapters and articles, a number of internationally recognized insolvency structures, tools, and practices that are broadly consistent with the insolvency laws of other countries.

This international commentary identifies international perspectives and comparative practices, including internationally recognized standards and practices where relevant. It aims to provide judges, lawyers, accountants, regulators, and other participants in insolvency proceedings with background and context that may assist in interpreting and applying the Insolvency Law to business and personal insolvency proceedings in Uzbekistan.

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[2] The World Bank. 2021. Principles for Effective Insolvency and Creditor/Debtor Regimes, 2021 Revised Edition. p. 4.

[3] This includes MSE Insolvency (sometimes referred to as MSME Insolvency).

Sources for the International Commentary

The preparation of this international commentary has been greatly assisted by the detailed insolvency law policy work of the United Nations, Asian Development Bank (**ADB**), World Bank, and the International Monetary Fund (**IMF**), reflected[4] in the texts referenced in this commentary as:

- the **UNCITRAL Guide**[5]
- the **ADB Guide**[6]
- the **IMF Guide**[7]
- the **World Bank Guide**[8]
- the **World Bank MSE Guide**[9]
- the **World Bank MSE Proposals**[10]

Purposes Served by Insolvency Law

Context is helpful in understanding a law. To understand the intent behind many processes and tools in the Insolvency Law, one must first understand both:

a) the purposes served by an insolvency law in a market economy; and

b) the internationally recognized principles that guide and support an effective and well-functioning insolvency system.

Internationally, an insolvency law is recognized as serving a specific purpose as well as several important broader purposes.

Specific Purpose

In modern economies, credit is often granted to a debtor. The debtor may be a trading entity in a market economy, or an individual purchasing personal assets on credit. However, credit carries the inherent risk that a debtor may eventually be unable to repay the debt or, if the debt is repaid, unable to meet other financial obligations. Such circumstances require a legal mechanism to collectively address all claims against the debtor.

It is a country's insolvency law that provides the legal and institutional structures to address financial distress through early intervention, rehabilitation, or liquidation, with a view to preserving and maximizing value[11] for the benefit of entitled stakeholders.

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[4] With regard to the IMF and World Bank texts referenced in this International Commentary, and quotations from them, note that the views expressed in these publications are those of the Legal Department (in respect of the IMF) and of staff of the World Bank with external contributions (in respect of the World Bank), and are not necessarily reflective of the views of these bodies.

[5] United Nations. UNCITRAL Legislative Guide on Insolvency Law, Parts adopted 25 June 2004 (Parts 1 and 2), 1 July 2010 (Part 3), 18 July 2014 (Part 4), and 18 July 2013 (Part 5, 2nd edition).

[6] ADB. 2008. Promoting Regional Cooperation in the Development of Insolvency Law Reforms.

[7] IMF. 1999. Orderly and Effective Insolvency Procedures.

[8] Footnote 2.

[9] World Bank. 2017. Report on the Treatment of MSME Insolvency.

[10] World Bank. 2018. Saving Entrepreneurs, Saving Enterprises: Proposals on the Treatment of MSME Insolvency.

[11] "Value," an important concept, is discussed in detail in the Introduction section to Chapter 8, p. 748.

Broader Purposes

The effective operation of legal and institutional structures is important not only to the participants in the insolvency process. They have a broader significance, as a country's insolvency law is also designed to address general policy imperatives:

> A range of interests needs to be accommodated by that legal mechanism: those of the parties affected by the proceedings including the debtor, the owners and management of the debtor, the creditors who may be secured to varying degrees (including tax agencies and other government creditors), employees, guarantors of debt and suppliers of goods and services**, as well as the legal, commercial and social institutions and practices that are relevant to the design of the insolvency law and required for its operation.** Generally, the mechanism must strike a balance not only between the different interests of these stakeholders, **but also between these interests and the relevant social, political and other policy considerations that have an impact on the economic and legal goals of insolvency proceedings.**[12]

These wider purposes can be summarized as follows:

Financial System Stability—The UNCITRAL,[13] World Bank,[14] and IMF[15] all emphasize the importance of a properly functioning insolvency system to the stability of a country's financial system. As UNCITRAL observes:

> Insolvency laws and institutions are critical to enabling States to achieve the benefits and avoid the pitfalls of integration of national financial systems with the international financial system. Those laws and institutions should promote restructuring of viable business and efficient closure and transfer of assets of failed businesses, facilitate the provision of finance for start-up and reorganization of businesses and enable assessment of credit risk, both domestically and internationally.[16]

Regarding the potential damage that significant non-performing loan portfolios can cause to a country's banking system, the IMF highlights the importance of a strong economic and financial system:

> For example, an effective insolvency system provides an important pillar of support for the domestic banking system by enabling banks to curtail the deterioration of the quality of their claims, including claims on the corporate sector, whether through a court-approved restructuring or, where necessary, through an efficient liquidation.[17]

Compatible Credit and Enforcement Systems—When lenders and investors lack confidence in a country's ability to address financial distress, the consequences are far-reaching. Investors withhold capital or reduce its deployment. Banks and other lenders become reluctant to lend; they may impose higher interest rates and shorter terms, or both. As the IMF observes:

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[12] Footnote 5, p. 9. (emphasis added)
[13] Footnote 5, p. 10.
[14] Footnote 2, p. 1.
[15] Footnote 7, Foreword, p. vii.
[16] Footnote 5, p. 10.
[17] Footnote 7, Foreword, p. vii

> Without effective procedures that are applied in a predictable manner, creditors may be unable to collect on their claims, which will adversely affect the future availability of credit. Without orderly procedures, the rights of debtors (and their employees) may not be adequately protected and different creditors may not be treated equitably. In contrast, the consistent application of orderly and effective insolvency procedures plays a critical role in fostering growth and competitiveness and may also assist in the prevention and resolution of financial crises: such procedures induce greater caution in the incurrence of liabilities by debtors and greater confidence in creditors when extending credit or rescheduling their claims.[18]

Thus, a credit-based economy "*should be supported by mechanisms that provide efficient, transparent, and reliable methods for recovering debt,"*[19] and the provisions of a country's insolvency law that establish these mechanisms must be applied in a manner that provides such support.

Finally, these systems must work in harmony with systems outside of the collective options provided in an insolvency law, such as judgment enforcement processes.

Support for Secured Lending—Unlike more developed markets in the Organisation for Economic Co-operation and Development (OECD), emerging economies rely predominantly on secured debt for financing with banks and other lenders requiring security to reduce the risk of non-performance. Thus, the protections that laws such as the Insolvency Law provide to the security taken by lenders are critical:

> Laws governing secured credit mitigate lenders' risks of default and thereby increase the flow of capital and facilitate low-cost financing. Discrepancies and uncertainties in the legal framework governing security rights are the main reasons for the high costs and unavailability of credit, especially in developing countries.[20]

Insulation from Financial Crises—The effective and efficient functioning of an insolvency law is essential because "*the absence of orderly and effective insolvency procedures can exacerbate economic and financial crises.*"[21]

Additionally, as the IMF observes:

> From the perspective of the economic policymaker, another objective of a rehabilitation procedure is to ensure participation of private creditors during a financial crisis, thereby limiting the public cost of crisis resolution. Such participation also forces creditors to bear the costs of the risks they incur, which, in the long term, will generate more stability in the financial system.[22]

Enhanced Operation of Capital Markets—Finally, the effective and efficient operation of the Insolvency Law is vital as it "*can also facilitate the development of capital markets. For example, if an insolvency law is applied with sufficient predictability, a secondary market in debt instruments can develop that, among other*

[18] Footnote 7, p. 1.
[19] Footnote 2, p. 5.
[20] Footnote 2, p. 5.
[21] Footnote 7, p. 1.
[22] Footnote 7, p. 53.

things, will enable financial institutions to transfer their loans to other entities that specialise in the workout process."[23]

These general objectives of a country's insolvency laws demonstrate the importance of Uzbekistan's Insolvency Law within its legal and commercial infrastructure. The *"predictable, equitable and transparent"*[24] interpretation and application of the Insolvency Law will provide the strongest support for the important objectives set out above.

Internationally Recognized Principles

To achieve these identified objectives, the Insolvency Law establishes a legal framework and an institutional framework. Both frameworks largely reflect internationally accepted principles and practices, while being tailored to Uzbekistan's legal, social, historical, and cultural conditions.

The three main sets of principles that underpin an insolvency law are:

(a) the Integrity Principles

(b) respect for secured debt/pledges

(c) the concept of Value

The first two sets of principles are outlined immediately below. The concept of Value is outlined and discussed in the introduction to Chapter 8, as "value" serves as the central theme of that chapter.

Integrity Principles

As the World Bank observes, "*integrity of the insolvency system is the linchpin of its success.*"[25] Integrity is a broad concept, covering the following more specific principles:

Integrity of Participants

The World Bank Guide includes a set of principles that reflect international best practices in insolvency law, practice, and procedure. Principle D6.3 states:

> **Integrity of participants**. Persons involved in a proceeding must be subject to rules and court orders designed to prevent fraud, other illegal activity, and abuse of the insolvency and creditor rights system. In addition, the court must be vested with appropriate powers to enforce its orders and address matters of improper or illegal activity by parties or persons appearing before the court with respect to court proceedings.[26]

Transparency Principle

Transparency is a key element of the policy goal for an insolvency law's *"predictable, equitable and transparent"* operation. The principle, as described by the World Bank, requires "*a transparent procedure that contains, and consistently*

[23] Footnote 7, p. 8.
[24] Footnote 7, p. 5.
[25] Footnote 2, p. 9.
[26] Footnote 2, p. 33.

applies, clear risk allocation rules and incentives for gathering and dispensing information."[27]

Predictability Principle

Predictability and reliability are key elements of the identified policy goal for an insolvency law's *"predictable, equitable and transparent"* operation. While each country makes different choices and rules about what is included in their law, those rules "*should be consistently applied by the individuals and institutions that are charged with implementing them…when the rules or their application are uncertain, such uncertainty erodes the confidence of all participants and undermines their willingness to make credit and other investment decisions*."[28]

The World Bank reinforces this point:

> A predictable, reliable legal framework and judicial process are needed to implement reforms, ensure fair treatment of all parties, and deter unacceptable practices.[29]

UNCITRAL identifies the risks associated with failing to observe these principles:

> [Transparency and predictability] will enable potential lenders and creditors to understand how insolvency proceedings operate and to assess the risk associated with their position as a creditor in the event of insolvency. This will promote stability in commercial relations and foster lending and investment at lower risk premiums. Transparency and predictability will also enable creditors to clarify priorities, prevent disputes by providing a backdrop against which relative rights and risks can be assessed and help define the limits of any discretion. Unpredictable application of the insolvency law has the potential to undermine not only the confidence of all participants in insolvency proceedings, but also their willingness to make credit and other investment decisions prior to insolvency.[30]

The World Bank explains the importance of this principle by noting that lenders tend to raise interest rates in the face of uncertainty. Moreover, when a financial crisis arises in a less developed market economy, a lack of confidence in predictability and reliability can lead to a withdrawal of lending, exacerbating financial difficulties in the broader economy.

Efficiency Principle

Efficiency is a key element of the identified policy goal for an insolvency law's *predictable, equitable and transparent"* operation. It is fundamental to the protection and preservation of the assets of the Debtor. The successful resolution of an insolvent debtor can be put at risk by delays from inefficiencies. Chronic inefficiency can erode confidence in the insolvency system.

Impartiality Principle

[27] Footnote 2, p. 7.
[28] Footnote 7, pp. 5 – 6.
[29] Footnote 2, p. 9.
[30] Footnote 5, p. 13.

The World Bank,[31] IMF,[32] and UNCITRAL[33] each emphasize the importance of impartiality in the implementation of an insolvency law. Impartiality will reinforce the Predictability Principle.

Equitable Treatment Principle

This principle comprises several important elements. They arise because insolvency proceedings are collective in nature, and *"... the collective nature of a proceeding can give reassurance to creditors that problems will be resolved in an orderly and equitable manner*."[34]

The first element in providing such reassurance is that an insolvency law will "*provide for the equitable treatment of all creditors."* This does not mean that every creditor must be treated the same. Some classes of creditors, such as secured creditors and employees, will receive the priority treatment specified under the law. Importantly, though, similarly situated creditors must be treated equally. For instance, because certain creditors deal with the Debtor based on an identified priority, equity dictates that such priority must be honored in the event of insolvency.

The IMF expressed the second element of the Equitable Treatment Principle as follows:

> For the benefit of all creditors, however, an insolvency law must address the problem of fraud and favouritism that often arises in the context of financial distress.[35]

That is, equitable treatment requires these problems to be addressed. For example, as the UNCITRAL Guide observes:

> An insolvency law should preserve the estate and prevent premature dismemberment of the debtor's estate by individual creditor actions to collect individual debts.[36]

The World Bank Guide makes the same point.[37] This aspect of the Equitable Treatment Principle is addressed in Chapter 6 of the Insolvency Law.

Finally, as the IMF observes, recognizing the importance of international investment and internationally sourced credit, discrimination against foreign creditors would breach the Equitable Treatment Principle.[38]

Principle of Respect for Secured Debt/Pledges

The interaction between the treatment of creditors secured by a pledge (**Secured Creditors**) and the interests of creditors generally in an insolvency proceeding can present a conflict between competing principles. On the one hand, protecting and maximizing the value of the debtor's assets is a key insolvency principle. On the other hand, the recognition and protection of pledges in favor of Secured Creditors is

[31] Footnote 2, p. 7.
[32] Footnote 7, p. 11 and p. 76.
[33] Footnote 5, p. 12.
[34] Footnote 7, p. 6.
[35] Footnote 7, p. 6.
[36] Footnote 5, p. 12.
[37] Footnote 2, p. 7.
[38] Footnote 7, p. 6.

arguably an even more important principle, as it serves the interests of the broader economy. As the IMF Guide observes:

> … the introduction of any measures that erode the value of security interests requires careful consideration. Such an erosion will ultimately undermine the availability of affordable credit [in the country's economy]: as the protection provided by security interests declines, the price of credit will invariably need to increase to offset the greater risk. Indeed, under certain market conditions, creditors may be unwilling to provide even secured credit at any price.[39]

The interaction between a pledge and the insolvency proceeding occurs in many ways, in both liquidation and rehabilitation proceedings.

In rehabilitation proceedings, the interaction is usually more difficult, though it can be difficult in liquidation proceedings as well. The IMF Guide explains the reason for this:

> Where estate assets essential to the operation of the debtor's business are encumbered by the security interests, the fact that secured creditors can immediately enforce their claims at the commencement of the rehabilitation proceedings may make it impossible for the debtor to keep its business in operation while it formulates a rehabilitation plan. However, this is also true—but to a lesser extent—under liquidation proceedings: the exclusion of secured creditors from the general stay on creditor actions may frustrate the liquidator's ability to maximize the value of the estate prior to distribution. In particular, if important assets serve as collateral, the liquidator will be unable to sell the debtor's business—or any business division—as a going concern. Moreover, even if the debtor's assets cannot be sold as a going concern, a temporary stay will give the liquidator time to arrange a sale that will give the highest return for the benefit of all unsecured creditors.[40]

A balance must be achieved between the need to restrict dealings with pledged assets to protect the value of all assets and the protection of the secured creditor's rights over the pledged assets.

Internationally, there is no universal approach to addressing this interaction. However, the concept of "adequate protection" is generally the minimum standard applied in insolvency laws. This concept, which varies in extent and application across countries, allows restrictions to be placed on Secured Creditors in a liquidation or a rehabilitation proceeding to increase the value of the debtor's assets generally. However, protections are built into the law so that the restrictions do not diminish the value of the pledge. For example, the judicial manager may be required to justify dealings with, or restrictions on, the pledged assets by proving to the court that the treatment of the pledged assets will not diminish the value of the pledge. Other possible protections include the right of the Secured Creditor to make a court application to object to any proposed treatment of the pledged assets, and for the Court to grant relief if satisfied that the proposed action would diminish the value of the pledged assets.

The common thread in the international treatment of this issue is ensuring that the Secured Creditor is appropriately protected. This is relevant, for example, when

[39] Footnote 7, p. 30.
[40] Footnote 7, p. 31.

measures such as moratoria temporarily restrict access to the pledged assets, or where the Secured Creditor is otherwise bound to observe a rehabilitation proceeding that affects the pledged assets. The manner and extent of that protection are matters for a country's local insolvency law.

The treatment of this critical issue in the Insolvency Law must be interpreted according to the specific terms of the Articles that address it. Those Articles reflect how the Uzbek Parliament has chosen to balance the competing interests between the Secured Creditor and unsecured creditors generally.

CHAPTER 1

BASIC RULES

Article-by-Article Commentary

Article 3

International Perspectives—Article 3 of the Insolvency Law defines "*insolvency*." For purposes of this international commentary, the discussion on "insolvency" is incorporated under "signs of insolvency" in Article 5.

Article 3 also defines the term "*creditors.*" Two observations can be made about international practice in defining the concept of creditors in an insolvency law.

First, international insolvency standards recognize that certain types of claims should be excluded from insolvency proceedings. These types of claims are preserved from being extinguished in an insolvency or from receiving dividends, or both. This is typically achieved in one of two ways: by excluding the claimant from the definition of "creditor" or by excluding the type of claim from the definition of "claims" (or its equivalent, such as "monetary obligations") in the insolvency law.

Second, "creditor" is generally defined broadly to encompass all parties with claims against the debtor (unless expressly excluded). This inclusive approach is pivotal for two reasons:

(i) if the debtor is liquidated, at the end of the process, there will be no other opportunity to receive a dividend from the debtor; and

(ii) if the debtor is rehabilitated, a successful outcome depends on the process addressing the claims of all relevant parties.

Importantly, since some claims are protected, as a matter of policy, from receiving dividends or from being extinguished or compromised, international best practice calls for a specific provision in the law to exclude such claims from some or all of the insolvency processes set out in insolvency law.

Article 3 defines "*debt restructuring procedure*". The commentary on this definition provides examples of such procedures that are consistent with international practice in debt restructuring.

In international practice, a debt restructuring procedure commonly involves a substantial reduction in the debtor's obligation to its creditors. This observation is equally pertinent to insolvencies involving legal entities, entrepreneurs, and individuals. Creditors—who vote whether to accept or reject the proposed debt restructure—may compare the proposed outcome under the debt restructure with the likely outcome under liquidation. When creditors vote in favor of restructuring that may involve a substantial reduction of the debt, they do so on a rational basis, specifically that liquidation (the alternative to the debt restructure) is expected to produce a materially worse outcome. This is frequently the case when liquidation would be value-destructive.[41] It may also be the position when a recapitalization under the debt restructuring procedure enables the debtor to continue its business

[41] See the international commentary in the Introduction to Chapter 8, pp. 748–751, where value is discussed as a key concept.

operations, but the fresh capital is only offered on the condition that creditors accept a reduction in the debt they are owed.

Article 4

International Perspectives—"Current payments" refers to the debtor's monetary obligations, taxes, and fees arising after the commencement of the insolvency proceedings. Under Article 4 (and Article 150) current payments have first priority for satisfaction. This priority aligns with international practice, reflecting the rationale that, without assurance of priority payment from the debtor's limited financial resources, new creditors are unlikely to transact with the debtor after the commencement of insolvency proceedings. This priority is, therefore, regarded internationally as an important structural element of the insolvency system.

Article 5

International Perspectives—In Article 3, the term "insolvency" is defined as follows:

> insolvency means the inability of the debtor, recognised by the court to fully satisfy the claims of creditors for monetary obligations and (or) fulfill their duties on taxes and fees

Furthermore, Article 5 identifies two "*signs of insolvency*" applicable to all processes under the Insolvency Law, except those in Chapters 14 (natural persons), 15 (individual entrepreneur), and 16 (simplified procedures). These signs are categorized as "temporary insolvency" and "permanent insolvency."

The definition in Article 5 reflects two internationally recognized tests of insolvency: temporary insolvency is an example of the "cash flow test," while permanent insolvency is an example of the "balance sheet test."

While there is no universal practice on the precise indicator that should trigger an insolvency proceeding, the cash flow test is more commonly adopted internationally. Since the inability to pay debts often precedes balance sheet insolvency, the cash flow test leads to earlier recognition of financial distress, increasing the likelihood of a successful rehabilitation.

Article 6

International Perspectives—Once initiated, the insolvency proceeding must be considered by the court. There is no universal international practice as to what *type* of proceeding can be commenced. The UNCITRAL Guide provides the following explanation:

> A second dimension of the commencement standard is the type of proceeding that can be commenced … In some laws the commencement standard provides the basis for commencement of either reorganization or liquidation proceedings. Where a liquidation application is made by a creditor, the insolvency law may permit the debtor to apply for the proceedings to be converted from liquidation to reorganization. Under other insolvency laws where reorganization is favoured, reorganization proceedings must be commenced, but can be converted to liquidation when it

> is demonstrated that the debtor cannot be reorganized. Under a further approach, the effect of the application is neutral and the choice between reorganization and liquidation will only be made after a period of assessment of the debtor's financial situation.[42]

In line with the last identified approach, Chapter 8 of the Insolvency Law provides for the commencement of a "Monitoring Procedure," enabling what the UNCITRAL Guide describes as "*a period of assessment of the debtor's financial situation.*" This supports a better informed decision on whether liquidation or rehabilitation is the desired outcome of the insolvency proceeding.

Article 7

International Perspectives—Article 7 identifies the parties that have the right to apply to the court to initiate insolvency proceedings. The parties include, among others, the debtor and its creditors.

When a creditor makes the application, a common issue internationally is for the court "*to determine whether the nonpayment is the result of the dispute with the creditor or part of a more general pattern of nonpayment due to a lack of liquid assets*.[43]" This is important. If it is merely the result of a dispute, that will not necessarily indicate insolvency.

Article 7 also provides that the relevant criterion for making the application is "*the failure to fulfill financial obligations".* This is consistent with a "cash flow test,"[44] and the following passage from the IMF Guide explains one important rationale for this approach:

> One of the principal reasons why countries often allow liquidation[45] proceedings to be opened on the basis of a determination of a "general cessation of payments[46]" can best be explained in terms of the objectives of these proceedings. To the extent that liquidation proceedings are designed to avoid a "grab race" by individual creditors that causes the dismemberment of the debtor to the detriment of the collective interests of creditors, waiting until the debtor is insolvent[47] will often only interrupt the grab race that is well under way. Moreover, proving balance sheet insolvency is often difficult for creditors since they lack inside information.
>
> Reliance on a "general cessation of payments test," on the other hand, is designed to activate the proceedings sufficiently early in the debtor's financial distress that this race will be preempted.[48]

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[42] Footnote 5, p. 48.
[43] Footnote 7, p. 23.
[44] See the international commentary regarding Article 5, p. 720.
[45] While the passage expressly refers to liquidation proceedings, it is also relevant to the commencement of an insolvency proceeding under the Insolvency Law, even though not yet a liquidation proceeding.
[46] It is clear from the preceding paragraphs of the IMF Guide that what is meant by this expression is: "when the debtor has ceased to meet its liabilities generally as they become due." (See p. 21 of the IMF Guide, Footnote 7.)
[47] It is clear from the preceding paragraphs of the IMF Guide that what is meant here by the word "insolvent" when used here is: "when the balance sheet of the enterprise showed that the value of the company's liabilities exceeded its assets." (See p. 22 of the IMF Guide, Footnote 7.)
[48] Footnote 7, p. 22.

Another advantage of encouraging early intervention when a debtor experiences financial distress is the higher likelihood of a successful rehabilitation. Article 7 allows the debtor or initiating creditor to indicate, in its initiation application to the court, the perceived need for rehabilitation or liquidation.

Article 8

International Perspectives—Article 8 sets out the grounds on which a debtor may apply for the commencement of an insolvency proceeding, specifically if there are signs of "temporary insolvency," as defined in Article 5. This means that balance sheet insolvency (that is, "permanent insolvency" as defined in Article 5) need not be demonstrated. Thus, an insolvency proceeding may be commenced by a debtor at a relatively early stage of financial distress. This is consistent with international practice, as indicated in the commentary on Article 7 above.

Articles 9 and 10

International Perspectives—Article 9 mandates the identified parties to apply to initiate insolvency proceedings within an identified timeframe under the conditions provided. Article 10 outlines the legal consequences should such parties fail to file the application.

Deciding whether to incorporate the above provisions into an insolvency law is a complex issue, with no universal international practice. Where such provisions are included in a country's insolvency law, the rationale has been identified in the following terms in the UNCITRAL Guide:

> A matter related to debtor applications is the question of whether or not the debtor should have an obligation to apply for commencement of proceedings at a certain stage of its financial difficulty. There is no widely agreed approach to this issue. Some insolvency or business governance laws include provisions that require the debtor to apply within a specified period of time (varying from two weeks to 60 days) after being unable to pay its debts as they become due or after learning of its overindebtedness determined by reference to its balance sheet. … In the case of liquidation, the imposition of such a duty may protect creditors' interests by preventing further dissipation of the debtor's assets and, in the case of reorganization, increase the chances of success by encouraging early action. This may be important in countries where there is no active creditor class that can be relied upon to commence proceedings.[49]

[49] Footnote 5, pp. 49-50.

CHAPTER 2

RIGHTS, DUTIES, AND RESPONSIBILITIES OF PARTICIPANTS IN INSOLVENCY PROCEEDINGS, MEETINGS OF CREDITORS, PUBLIC ASSOCIATIONS, JUDICIAL MANAGERS

Introduction

International Perspectives—Creditors play a key role in an insolvency proceeding. The IMF Guide observes:

> Given that creditors are key beneficiaries of the insolvency process, the law should be designed and implemented in a manner that enables them to play an active role in this process. They should normally be the decision makers in a number of key areas…In addition, the law should give them a role in requesting or recommending action from the court …[50]

The UNCITRAL Guide provides further reasons why creditors have an important role to play in an insolvency proceeding:

> For a number of different reasons, many insolvency laws facilitate direct creditor involvement in the proceedings. As the party with the primary economic stake in the outcome of the proceedings, creditors may lose confidence in proceedings where key decisions are made without consulting them by individuals who may be perceived by creditors as having limited experience or expertise in the debtor's type of business or a lack of independence, depending upon the manner in which the representative is appointed. Creditors are often in a good position to provide advice and assistance with respect to the debtor's business and to monitor the actions of the insolvency representative, providing a check against possible abuse of insolvency proceedings and excessive administrative costs, as well as a means of processing and distributing information.[51]

While international standards emphasize the importance of creditor involvement in the insolvency process, they come with a cautionary observation. Effective implementation of an insolvency law requires the careful balancing of key—but occasionally conflicting—principles and considerations:

> The desirability of facilitating high levels of creditor participation must be balanced against the need to ensure that the creditor representation mechanism remains efficient and cost-effective and avoids creditors involving themselves in matters that will not have an impact on their interests (although often it may be difficult to draw a clear distinction between those matters which do have such an impact and those which do not).[52]

In facilitating creditor involvement, there are various approaches internationally. The UNCITRAL Guide makes the following observations on these alternative approaches:

> In terms of the mechanisms for participation, some insolvency laws provide for full meetings of creditors to be convened at key points in the proceedings. Other laws permit the formation of a committee, on which

[50] Footnote 7, p. 74.
[51] Footnote 5, p. 190.
[52] Footnote 5, p. 190.

> creditors sometimes may share representation with equity holders and possibly other parties in interest, comprising a smaller number of creditors (which number may be specified in the insolvency law) to facilitate the participation in the administration of the estate. The former approach is most useful in cases with small numbers of creditors or where creditors are located in the same geographical region. The latter may be more useful where there are large numbers of creditors or creditors are located in different regions or even different countries. The mechanism used for participation will also depend upon the immediate issue before creditors. Many insolvency laws include both of these approaches, with significant issues, such as approval of a reorganization plan, to be considered by meetings of creditors.[53]

Article-by-Article Commentary

Article 12

International Perspectives—Part 5 of Article 12 sets out the range of decisions that fall within the meeting of creditors' "exclusive competence."

There is no single international practice regarding the extent or depth of powers exercisable by creditors in a meeting of creditors. In addition to the commentary in the Introduction to this chapter, the UNCITRAL Guide observes:

> There are varying degrees of possible creditor involvement in decision making in insolvency proceedings, based upon the functions it is determined should be performed by creditors. In general, a determination as to which functions should be given to creditors involves a consideration of the overall design of the insolvency law and the balance to be achieved between the roles of the court, the insolvency representative, the debtor and creditors, in particular in terms of oversight and supervision. To some extent, the different functions given to creditors reflect different insolvency cultures and traditions and, in particular, different expectations on the part of creditors as to the level of their participation in insolvency proceedings. However, creditor participation is increasingly regarded as an important element of an insolvency law, especially as a counter-balance to the roles assigned to other participants under the law and as an important means of safeguarding creditor interests.[54]

This allocation process can give rise to a natural tension between the creditors and the creditor representative (the judicial manager under the Insolvency Law). This tension is inherent in the process because there is rarely a single "correct" approach for important decisions in cases of financial distress. Disagreements between the judicial manager and the meeting of creditors are therefore common. As the UNCITRAL Guide observes:

> Where the regime provides for the actions or decisions of the insolvency representative to be supervised or approved by creditors generally, the creditor committee or other creditor representative, a high level of creditor protection may ensue. Where that supervision or approval adds steps to the

[53] Footnote 5, p. 194.
[54] Footnote 5, pp. 190-191.

> administration of the insolvency estate, however, it has the potential to affect the cost and efficiency of the administrative process. Some level of disagreement between the insolvency representative and individual creditors is almost impossible to avoid, in particular as the insolvency representative will be required to act for the benefit of all creditors and to take action that individual creditors may not support or agree with. In the normal course of events, however, such dissatisfaction would not give the court cause to replace the insolvency representative or give the creditor grounds for an action against the insolvency representative. For these reasons, an insolvency regime will need to balance the extent to which supervision or approval by creditors is required (including defining both the acts and decisions that require approval and the procedure for obtaining that approval) against the independence of the insolvency representative and the desirability of speed and cost-effectiveness in the conduct of the insolvency proceedings. Regimes vary in the accommodation reached between these possibly competing factors.[55]

The Insolvency Law addresses potential disagreements between creditors and the judicial manager, seeking to achieve balance (through a court decision) between the competing interests and principles embodied in the Insolvency Law. For example, Part 8 of Article 12 grants the Court the power—after hearing the opinion of the temporary manager—to initiate a rehabilitation process even if the creditors meeting voted for liquidation.

Part 11 of Article 12 sets out the appeal rights of individual creditors. The existence of this right and the breadth of appealable issues are consistent with international practice. These safeguard the integrity of the process and the right of creditors to be heard on important decisions, fostering confidence in the insolvency system.

Articles 13, 14, 15, 16, and 17

International Perspectives—By setting clear rules for notification, convening, and conduct of creditor meetings (including voting procedures), these articles reflect the Integrity Principle, Impartiality Principle, and Transparency Principle, which are all important to a properly functioning insolvency system. The IMF Guide offers relevant observations on international practice:

> Whatever role is provided for creditors under the law, they will only be able to fulfill this role in an effective manner if the proceedings are actually conducted in a transparent manner. It is therefore imperative that they receive adequate notice of important meetings and decisions and that they receive sufficient information to make fully informed decisions.[56]

Part 6 of Article 17 defines specific appeal rights of individual creditors. The existence of this right of appeal is consistent with international practice. It safeguards the integrity of the process and the right of creditors to be heard on important decisions, fostering confidence in the insolvency system.

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[55] Footnote 5, p. 192.
[56] Footnote 7, p. 74.

Article 18

International Perspectives—The requirements of this article for the preparation and maintenance of a register of creditor claims and the right of inspection are consistent with the internationally recognized Transparency Principle[57] and Integrity Principle.

Part 6 of Article 18 sets out the appeal rights of individual creditors in the event of a dispute concerning the register. The existence of this right of appeal is consistent with international practice. It safeguards the integrity of the process and the right of creditors to be heard on important decisions, fostering confidence in the insolvency system.

Article 19

International Perspectives—The creation of a committee of creditors under this article, and the conferral of powers on the committee, is consistent with international practice as set out in the IMF Guide:

> In cases where there are a large number of creditors, the creation of a creditors' committee that will act on behalf of creditors provides for coherence and efficiency in the process.
>
> […]
>
> Although a creditors' committee plays only an advisory role in the decision-making process (they normally are not given the legal authority to take major decisions on behalf of all creditors), such a role can, as a matter of practice, be very important. The creditors' committee will normally make recommendations to creditors on how to make key decisions (e.g., approval of a plan) and will also make recommendations to the court as to how it should decide on important matters. Although the court should listen to all creditors before making its decision, considerable weight will normally be given to the committee's views.
>
> In addition to facilitating the decision-making process, an effective creditors' committee can play an important role in the negotiation of a rehabilitation plan. Experience demonstrates that, in circumstances where there are a large number of creditors with divergent interests, one of the critical stumbling blocks is the resolution of inter-creditor issues. The creation of a creditors' committee with a single financial advisor can greatly facilitate the resolution of those issues. One of the financial advisor's principal roles will be to forge creditor agreement on the features of the plan. A committee can also assist in increasing the flow of information. Debtors may be much more willing to provide particularly confidential information to a small committee rather than the full body of creditors, particularly where the committee members have signed confidentiality agreements.[58]

It is important to note that the observations above pertain generally to international practice. Ultimately, the specific terms of Article 19 dictate the powers and operation framework of the committee of creditors. For example, while the passage above

[57] Footnote 2, p. 16.
[58] Footnote 7, pp. 74–75.

suggests that a committee of creditors "*plays only an advisory role in the decision making process,*" some of the powers conferred by Article 19 on the committee are substantive and not merely advisory.

Article 22

International Perspectives—Article 22 largely outlines the qualifications required of a judicial manager, as well as the criteria disqualifying persons from the role. From an international standpoint, the UNCITRAL Guide offers the following general observations on relevant qualification (using the description "insolvency representative" to describe the position of judicial manager in the Insolvency Act):

> The insolvency representative may be an individual or, in some jurisdictions, a corporation or other separate legal entity. However appointed, the insolvency representative plays a central role in the effective and efficient implementation of an insolvency law, with certain powers over debtors and their assets and a duty to protect those assets and their value, as well as the interests of creditors and employees, and to ensure that the law is applied effectively and impartially. Accordingly, it is essential that the insolvency representative be appropriately qualified and possess the knowledge, experience and personal qualities that will ensure not only the effective and efficient conduct of the proceedings and but also that there is confidence in the insolvency regime.[59]

The list of disqualifying factors in Part 3 of Article 22 reinforces the important integrity principles set out in the Introduction, including the Predictability Principle,[60] the Efficiency Principle,[61] and the Impartiality Principle.[62] Internationally, conflicts of interest (a breach of the Impartiality Principle) may often arise. While the existence of a conflict of interest is usually readily apparent, it can occasionally be complex. Thus, it is helpful to quote extensively from the UNCITRAL Guide on this point:

> 42. An essential element of these personal qualities is that the insolvency representative is able to demonstrate independence from vested interests, whether of an economic, familial or other nature. To that end, it is desirable that the insolvency law impose an obligation to disclose existing or potential conflicts of interest, which would apply to a person proposed for appointment as an insolvency representative at the commencement of the proceedings and to the appointed person on a continuing basis throughout the proceedings. The law should specify to whom the disclosure should be made. This may vary depending upon the procedure for selection and appointment of the insolvency representative. The circumstances that amount to a conflict of interest vary between laws, as do the consequences of a conflict being disclosed at the commencement of proceedings or discovered at some later stage.
>
> 43. A conflict of interest may arise, for example, from a number of prior or existing relationships with the debtor. Prior ownership of the debtor; a prior

[59] Footnote 5, p. 174.
[60] See Introduction Chapter, p. 715.
[61] See Introduction Chapter, p. 715.
[62] See Introduction Chapter, p. 715.

or existing business relationship with the debtor (including being a party to a transaction with the debtor that may be subject to investigation in the insolvency proceedings and being a creditor or debtor of the debtor); a relationship with a creditor of the debtor; prior engagement as a representative or officer of the debtor; prior engagement as an auditor of the debtor; and a relationship with a competitor of the debtor may be sufficient to establish a conflict of interest. In some States that conflict of interest will preclude the appointment of the person as an insolvency representative or disqualify an appointee from continuing in that role. In others, the person may still be appointed, provided the conflict of interest is disclosed on the basis that the disclosure supports their integrity and any impartiality or lack of independence can be assessed against the circumstances disclosed. In order to enhance the transparency, predictability and integrity of an insolvency regime, it is desirable that an insolvency law specify the degree of relationship that gives rise to such a conflict of interest, including specifying those relationships which will disqualify a person from being appointed. It is generally left to the courts to determine whether or not a conflict of interest or a basis for demonstrating lack of independence exists in a particular case.[63]

[63] Footnote 5, p. 176.

Article 24

International Perspectives—Significantly, Article 24 specifies the services to be offered by a public association of judicial managers, including representation and the implementation of educational and training initiatives. These associations also perform the important function of submitting candidates for the position of judicial manager to the court.

In terms of training, education, and experience required of judicial managers, the UNCITRAL Guide offers the following observations:

> In determining the qualifications required for appointment as an insolvency representative, it is desirable that a balance be achieved between stringent requirements that lead to the appointment of a highly qualified person, but which may significantly restrict the pool of professionals considered to be appropriately qualified and add to the costs of the proceedings, and requirements that are too low to guarantee the quality of the service required. Where there is a lack of appropriately qualified professionals, the role given to the court in appointment and supervision of the insolvency representative may be an important factor in achieving the required balance.[64]

Further:

> The complexity of many insolvency proceedings makes it highly desirable for the insolvency representative to be appropriately qualified, with knowledge of the law (not only insolvency law, but also relevant commercial, finance and business law), as well as adequate experience in commercial and financial matters, including accounting. The insolvency representative will be required to demonstrate competence in carrying out its assigned functions in a range of different cases and circumstances that are likely to be contentious, in both liquidation and reorganization, where time limits may be imposed by the insolvency law, where commercial requirements have to balanced against legal considerations and where there is a need to serve the interests of others, such as creditors and maybe a public interest. If further or more specialized knowledge is required in a particular case, it can always be provided by hired experts. Some insolvency laws also require a person to be appointed as an insolvency representative in a particular case to have expertise and skills suited to that case, such as knowledge of the debtor's particular business, its assets and the type of market in which it operates.[65]

In terms of qualifications:

> Different approaches are taken to ensuring the appropriate qualification of the insolvency representative, including a requirement for certain professional qualifications and examinations; licensing where the licensing system is administered by a government authority or professional body; specialized training courses and certification examinations; and requirements for certain levels of experience (generally specified in numbers of years) in relevant areas, for example, finance, commerce, accounting and law, as well as in the conduct of insolvency proceedings. There may also be requirements

[64] Footnote 5, p. 174.
[65] Footnote 5, p. 175.

for ongoing professional education to ensure familiarity with current developments in relevant areas of law and practice. Those systems which require some form of licensing or professional qualification and membership of professional associations often also address issues of supervision and discipline and an insolvency representative may be subject to regulation by the court, a professional association, a corporate regulator or other body under legislation other than the insolvency law.[66]

More generally, in terms of desirable personal characteristics:

> In addition to having the requisite knowledge and experience, it may also be desirable for the insolvency representative to possess certain personal qualities, such as integrity, impartiality, independence and good management skills.[67]

Article 25

International Perspectives—While the interpretation of this Article is a matter of Uzbek law for an Uzbek court to determine, the IMF Guide offers the following observations, based on international practices, regarding the appropriate standard of care for the performance by a judicial manager of its duties and functions:

> As a court-appointed official, the liquidator and the administrator[68] owe a duty of care to all parties in interest and therefore can be liable to all these parties for a violation of this duty. What standard of care is owed to these parties? As a general matter, the standard should not be stricter than that of negligence, a standard that will take into consideration the difficult circumstances in which a liquidator or administrator finds itself when it is fulfilling its duties. A stricter standard would make it difficult to attract qualified professionals. It should be noted that a liquidator or administrator's liability can be effectively reduced by obtaining advance approval of creditors before the making of any key decisions (e.g., the continuation of the business during liquidation).[69]

The UNCITRAL Guide also presents perspectives on the standard of care. Given the importance of the issue, the following lengthy extract is reproduced:

> 60. The standard of care to be employed by the insolvency representative and its personal liability are important to the conduct of insolvency proceedings. Establishing a measure for the care, diligence and skill with which the insolvency representative is to carry out its duties and functions requires that the difficult circumstances in which the insolvency representative finds itself when fulfilling its role are taken into account and balanced against payment of an appropriate level of remuneration and the need to attract qualified persons to act as insolvency representatives. A balance is also desirable between a standard that will ensure competent performance of the duties of the insolvency representative and one that is so stringent it invites law suits against the insolvency representative and raises the costs of its services. An insolvency law will also need to take into

[66] Footnote 5, p. 175.
[67] Footnote 5, p. 175.
[68] This role description is the equivalent of a judicial manager appointed under the Insolvency Law.
[69] Footnote 7, p. 77.

consideration the fact that the liability of the insolvency representative may often involve the application of law outside insolvency or, where the insolvency representative is a member of a professional organization, the relevant professional standards of the organization.

61. Under many legal systems, the insolvency representative will be liable in a civil action for damages arising from its misfeasance or malfeasance, although different approaches are taken to setting the standard required. … One approach may be to require the insolvency representative to observe a standard no more stringent than would be expected to apply to the debtor in undertaking its normal business activities in a state of solvency, that of a prudent person in that position. Some States, however, may require a higher standard of prudence in such a case because the insolvency representative is not dealing with its own assets, but with assets belonging to another person. A different formulation is one based upon an expectation that the insolvency representative act in good faith for proper purposes. A further approach may be based upon the standard of care required to determine negligence.[70]

Article 26

International Perspectives—The calculation of remuneration presents challenges internationally:

> In addition to the reimbursement of the proper expenses incurred in the course of administration of the estate, the insolvency representative will be entitled to receive remuneration for its services. That remuneration should be commensurate with the qualifications of the insolvency representative and the tasks it is required to perform and should achieve a balance between risk and reward in order to attract appropriately qualified professionals.[71]

The primary complexity lies in selecting the method for calculating the remuneration. International practice provides examples of different approaches:

- Fees are calculated on a scale approved by a government agency or professional association, with the remuneration fixed by reference to that scale.
- Remuneration determined by the Court or by creditors (either at a meeting of creditors or of the committee of creditors) "*based upon the time properly spent by the insolvency representative (and the various categories of person who are likely to work on the insolvency administration from office staff through to the principal appointee).*"[72] This is known as a time-based system.
- Remuneration based on a percentage of the value of the debtor's assets (either the value collected or the value distributed). This is known as a commission-based system.
- Incentives can be built into the remuneration calculation, for example, a higher commission for milestones, such as reaching a specified

[70] Footnote 5, pp. 183–184.
[71] Footnote 5, pp. 180–181.
[72] Footnote 5, p. 181.

percentage return to unsecured creditors. (The ninth paragraph of Article 26 provides an example of this type of incentive payment.)

The UNCITRAL Guide offers the following observations regarding time-based systems:

> An advantage of a time-based method is that often there will be a high level of uncertainty at the outset as to how complex and resource-intensive a particular administration may be, at least until some preliminary work has been carried out. A disadvantage is that, although it may encourage a very thorough administration, a time-based system may also operate in some cases as an incentive to maximize the time spent on administration without necessarily achieving a proportional return of value to the estate.[73]

On the other hand, the UNCITRAL Guide makes the following observations regarding commission-based systems:

> An advantage of the commission system, at least from the creditors' perspective, is that at least some, if not a substantial proportion, of the assets recovered will be distributed to them. From the insolvency representative's point of view, however, it may be an uncertain method of calculation because the amount of work involved in an administration is not necessarily proportional to the value of assets available for distribution. It may also encourage an approach of "maximum return for minimum cost" and provides little incentive for undertaking functions that are not directly related to increasing returns to creditors, such as obligations to report to both the court and to creditors and to assist regulatory authorities with investigations into the debtor's affairs and possible misconduct. This method of calculation may also lead, in very large cases, to significantly large fees being paid out of the estate, which can deter both creditor and debtor applications.[74]

The UNCITRAL Guide observes that involving creditors in remuneration approval has the advantage of ensuring creditor awareness of the issues faced by the judicial administrator:

> Remuneration could also be reviewed periodically during the course of the proceedings, with any problems being addressed and resolved as they arise, perhaps by arbitration or some other form of dispute resolution between the insolvency representative and the creditors. Care should be taken to avoid a situation where the right of final determination enables one party to unduly influence conduct of the proceedings.[75]

Part 8 of Article 26 addresses the issue raised in the final sentence quoted above, where any disputes are referred to the Court for determination.

[73] Footnote 5, p. 181.
[74] Footnote 5, p. 181.
[75] Footnote 5, p. 182.

CHAPTER 3

REGULATION OF THE SPHERE OF INSOLVENCY

Article-By-Article Commentary

Articles 28 and 29

International Perspectives—Articles 28 and 29 relate, in part, to the management of claims by the Republic of Uzbekistan as a creditor in insolvency proceedings, as well as the management of financial distress affecting enterprises in which the state holds an interest.

Articles 28 and 29 grant the Agency for Management of State Assets of the Republic of Uzbekistan (UzSAMA) and the Cabinet of Ministers of the Republic of Uzbekistan important regulatory and supervisory powers over insolvency processes. These authorities oversee professionals involved in insolvency processes. This regulatory and supervisory role is internationally regarded as a critical component of a robust legal system. The effective performance of the role is essential to upholding the Integrity Principles set out in the Introduction of this international commentary.[76] The UNCITRAL Guide offers the following observations:

> Implementing an insolvency system depends not only on the court, but also on the professionals involved in insolvency proceedings, whether they are insolvency representatives, legal advisers, accountants, valuation specialists or other professional advisers. The adoption of professional standards and training may assist in developing capacity. It may be appropriate to assess which insolvency functions are truly public in nature and therefore should be performed in the public sector in order to ensure the level of trust and confidence required to make the insolvency system effective and those functions which can be performed by the creation of adequate incentives for private-sector participants in insolvency proceedings, such as the function of insolvency representative.[77]

The World Bank Guide includes the following regulatory considerations as part of its Principles for Effective Insolvency and Creditor/Debtor Regimes:[78]

> **D7 Role of Regulatory or Supervisory Bodies**
>
> The bodies responsible for regulating or supervising insolvency representatives should:
>
> - Be independent of individual representatives;
> - Set standards that reflect the requirements of the legislation and public expectations of fairness, impartiality, transparency, and accountability; and
> - Have appropriate powers and resources to enable them to discharge their functions, duties, and responsibilities effectively.
>
> **D8 Competence and Integrity of Insolvency Representatives**
>
> The system should ensure that:

[76] See Introduction Chapter, pp. 714-716 of this International Commentary.
[77] Footnote 5, p. 35.
[78] Footnote 2, p. 33–34.

- Criteria as to who may be an insolvency representative should be objective, clearly established, and publicly available;
- Insolvency representatives be competent to undertake the work to which they are appointed and to exercise the powers given to them;
- Insolvency representatives act with integrity, impartiality, and independence; and
- Insolvency representatives, where acting as managers, be held to director and officer standards of accountability, and be subject to removal for incompetence, negligence, fraud, or other wrongful conduct.

CHAPTER 4

INSOLVENCY PROCEDURES AND PRE-TRIAL REHABILITATION

Introduction

International Perspectives—Pre-judicial rehabilitation, also referred to internationally as "restructuring" or "informal work outs," is a common process used outside of formal or court-based insolvency proceedings. It is an important means for resolving financial distress, proving particularly effective when there is a single creditor (or a small group of creditors) with sufficiently significant claim(s) that a compromise or arrangement with them will fix the debtor's financial distress.

For example, a compromise between the debtor and its bank or a syndicate of banks can often restore the debtor's solvency. The process is commonly used internationally for large debtors with substantial debt. This may also be the case for micro, small, and medium enterprises (also known as "MSEs" or MSMEs), where an agreement with the tax collection authority, or the landlord of the debtor, is sufficient to restore the debtor to solvency.

According to the ADB Guide, this process offers several advantages:

6.1.1 Advantages of informal workouts

There are usually material advantages for both debtors and creditors in pursuing an informal or contract-based rescue or workout. Some of the main advantages are said to be that:

- the possible cost, complexity, uncertainty, and possible extensive time of formal insolvency processes are reduced;
- because the numbers of creditors involved are relatively small, there is less need for formalities and, as a result, greater efficiency;
- a greater degree of secrecy and confidentiality may be possible (in the sense that there is no publicity or public knowledge that the debtor is in financial difficulty);
- there may be greater flexibility and less rigidity in determining a plan of action for the resolution of the financial difficulties of the debtor since the participants are not bound by constraints that might be imposed by a formal insolvency reorganization regime; and
- an informal workout that is sustained by an agreement between the debtor and its financiers provides a more sympathetic regime in which to reorganize the debtor's affairs than is usually the case in a formal insolvency administration.[79]

The World Bank emphasizes the importance of this process in large-scale insolvencies:

> A country's financial sector (possibly with help from the central bank or finance ministry) should promote an informal out-of-court process for dealing

[79] Footnote 6, p. 60.

> with cases of corporate financial difficulty in which banks and other financial institutions have a significant exposure—especially in markets where enterprise insolvency is systemic.[80]

Thus, achieving rehabilitation through private negotiation with the relevant creditors before insolvency proceedings commence may yield the advantages identified by the ADB Guide.

Detailed and sophisticated international rules and protocols have been developed to facilitate pre-judicial rehabilitation processes between a debtor and a group of its creditors, particularly between a debtor and its bank or syndicate of banks. INSOL International has published one such framework.[81]

In addition, mediation can be particularly helpful in these scenarios, where an agreement with just one creditor, or with a small number of creditors, can be sufficient to restore solvency.

One limitation of pre-judicial rehabilitation is its reliance on mutual agreement between the debtor and the affected creditors. If affected creditors dissent, an insolvency proceeding will need to be commenced in order to bind the dissenting creditors to the proposed agreement. This transition to an insolvency proceeding is only possible if the requisite number of creditors vote in its favor and the other requirements for a binding settlement agreement are met.

Article-by-Article Commentary

Article 30

International Perspectives—Article 30 lists the various insolvency procedures available to debtors. Regardless of whether the debtor is a legal entity, a natural person, or an entrepreneur, there are alternative paths of pre-judicial rehabilitation, liquidation (meaning bankruptcy for a natural person), or rehabilitation.

Chapter 15 provides individual entrepreneurs with two rehabilitation options (in addition to pre-judicial rehabilitation) as an alternative to liquidation. First, a debt repayment plan is available under Article 229. Second, Part 2 of Article 232 recognizes the opportunity to postpone the insolvency proceeding while a settlement agreement (as described in Chapter 12) is proposed and considered.

Internationally, this choice between liquidation and rehabilitation is a cornerstone in insolvency law. These two alternative paths lead to different outcomes for the debtor.

The choice between these two paths is, therefore, the most important choice to be made in an insolvency proceeding. International experience suggests that, in business contexts, most proceedings will default to liquidation because rehabilitation is only viable when there is a realistic prospect of restoring solvency. As the UNCITRAL Guide warns, rehabilitation processes *"should not result in establishing a safe haven for moribund enterprises: enterprises that are beyond rescue should be liquidated as quickly and efficiently as possible"*.[82]

If rehabilitation is economically feasible, it will often be capable of producing a better outcome for stakeholders by preserving the value of the business. This

[80] Footnote 2, p. 7.
[81] Insol International. 2017 Statement of Principles for a Global Approach to Multi-Creditor Workouts II.
[82] Footnote 5, p. 15–16.

important issue of value, how it can be measured, and the other factors relating to the choice between liquidation and rehabilitation are discussed in greater detail in the international commentary in the Introduction to Chapter 8.[83]

Article 31

International Perspectives—Please refer to the Introduction to the international commentary for this chapter.[84]

Article 34

International Perspectives—Article 34 identifies several operational, contractual, and legal opportunities to undertake pre-judicial rehabilitation. The terms of this article are consistent with international practices in this regard.

[83] See Chapter 8 of the International Commentary, pp. 748-751.
[84]See Introduction to Chapter 4 of the international commentary, pp. 735-736.

CHAPTER 5

CONSIDERATION OF INSOLVENCY CASES BY THE COURT

Article-by-Article Commentary

Article 37

International Perspectives—The UNCITRAL Guide makes the following international practice observations regarding the standard for the commencement of insolvency proceedings:[85]

> As a general principle it is desirable that the commencement standard be transparent and certain, facilitating access to insolvency proceedings conveniently, cost-effectively and quickly to encourage financially distressed or insolvent businesses to voluntarily commence proceedings. It is also desirable that access be flexible in terms of the types of insolvency proceedings available (reorganization and liquidation), and the ease with which the proceedings most relevant to a particular debtor can be accessed, and that conversion between the different types of proceeding can be achieved. Restrictive access can deter both debtors and creditors from commencing proceedings, while the effects of delay can be harmful to the value of assets and the successful completion of insolvency proceedings, in particular in cases of reorganization. Ease of access needs to be balanced with proper and adequate safeguards to prevent improper use of proceedings. Examples of improper use may include application by a debtor that is not in financial difficulty in order to take advantage of the protections provided by the insolvency law, such as the automatic stay, or to avoid or delay payment to creditors and application by creditors who are competitors of the debtor, where the purpose of the application is to take advantage of insolvency proceedings to disrupt the debtor's business and thus gain a competitive edge.
>
> Laws differ on the specific standard that must be satisfied before insolvency proceedings can commence. A number of laws include alternative standards and distinguish between the standard applicable to commencement of liquidation and reorganization proceedings, as well as between applications by a debtor and a creditor or creditors.[86]

Part 1 of Article 37 specifies that it is the "temporary insolvency" test that enables the commencement of insolvency proceedings.

Part 6 allows state tax authorities to file an application initiating an insolvency proceeding. This is consistent with international practice:

> Where the Government is a creditor, it should have the same right as any other creditor to initiate liquidation proceedings.[87]

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[85]These observations do not interpret Article 37 but merely observe that legislation should set the standard for the commencement of insolvency proceedings.

[86] Footnote 5, p. 45.

[87] Footnote 5, p. 52.

Article 39

International Perspectives—Where the debtor makes the initiating application, Article 39 requires that notice be given to creditors and other persons participating in the insolvency case. This is consistent with international practice:

> Giving notice of an application for commencement and of the commencement of insolvency proceedings is central to several key objectives of an insolvency regime. It ensures the transparency of the proceedings and that all affected parties—the creditors and parties in interest in the case of a debtor application, and the debtor and other creditors and parties in interest the case of a creditor application—are equally well informed.[88]

Article 41

International Perspectives—Where a creditor makes the initiating application, there is a requirement to notify the debtor of the application. This is consistent with international practice:

> In the event of a creditor application for commencement of insolvency proceedings, it is increasingly recognized that the debtor should have a fundamental right to immediate notice of the application and an opportunity to be heard and to dispute the applicant's claims as to its financial position.[89]

Article 47

International Perspectives—The availability of remedies of the type described in this article is consistent with international practice.

Article 50

International Perspectives—International practice emphasizes the importance of promptly deciding whether to commence an insolvency proceeding. The UNCITRAL Guide observes:

> Where a court is required to make a decision as to commencement, it is desirable that that decision be made in a timely manner to ensure both certainty and predictability of the decision-making and the efficient conduct of the proceedings without delay. This will be particularly important in the case of reorganization to avoid further diminution of the value of assets and to improve the chances of a successful reorganization. Some insolvency laws prescribe set time periods after the application within which the decision to commence must be made.[90]

The imposition of a time limit, with the opportunity for a short extension, balances the need for promptness and transparency with the need to allow due process to interested parties, particularly the debtor, when a creditor makes the application.

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[88] Footnote 5, p. 59.
[89] Footnote 5, p. 60.
[90] Footnote 5, p. 58.

Article 53

International Perspectives—The publication requirements of this article are consistent with the Transparency Principle discussed in the Introduction to this international commentary.[91]

Article 54

International Perspectives—The publication requirements of this article are consistent with the Transparency Principle discussed in the Introduction to this international commentary.[92]

Article 60

International Perspectives—The deadlines for filing and resolving disputes arising in the course of the insolvency proceedings are notably short. This approach is consistent with international practice:

> An insolvency proceeding is a dynamic process. Unlike many other adjudicative proceedings, which involve an inquiry into historical events, an insolvency proceeding takes place in "real time": delays in a court's adjudication can have an adverse effect on the value of the assets or the viability of the enterprise. It is therefore critical that procedures be put in place to ensure that hearings can be held quickly and that decisions are rendered soon thereafter.[93]

Article 62

International Perspectives—Consistent with international practice, this article supports the use of pre-judicial rehabilitation as a means to resolve financial distress when the state holds an investment in the debtor.

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[91] See Introduction Chapter, p. 714.
[92] See Introduction Chapter, p. 714.
[93] Footnote 7, p. 79.

CHAPTER 6

INVALIDITY OF TRANSACTIONS

Introduction

International Perspectives—This international commentary for Chapter 6 is focused on general principles and international practices. This is because the subject matter of this chapter is consistent with such general principles and practices, while the specific terms of each article represents an individualistic application of those principles and practices. Each article must be interpreted as a matter of Uzbek law, in accordance with its terms.

Rationale

International Perspectives—Modern insolvency laws typically include provisions to invalidate specific transactions made by the debtor before or during the insolvency proceeding. Under the Uzbekistan Insolvency Law, these transactions may be declared invalid under Chapter 6, even though they are otherwise valid and legally effective. In this sense, Chapter 6 interferes with contractual relations between the debtor and other parties. It does so consistently with internationally recognized principles and practices.

The inclusion of this regime in insolvency law illustrates the Equitable Treatment Principle.[94] The internationally recognized rationale is explained by UNCITRAL as follows:

> Insolvency proceedings (both liquidation and reorganization) may commence long after a debtor first becomes aware that such an outcome cannot be avoided. In that intervening period, there may be significant opportunities for the debtor to attempt to hide assets from creditors, incur artificial liabilities, make donations or gifts to relatives and friends or pay certain creditors to the exclusion of others. There may also be opportunities for creditors to initiate strategic action to place themselves in an advantageous position. The result of such activities, in terms of the eventual insolvency proceedings, generally disadvantages ordinary unsecured creditors who were not party to such actions and do not have the protection of a security interest.[95]

The UNCITRAL Guide adds the following further policy observation:

> 151. It is a generally accepted principle of insolvency law that collective action is more efficient in maximizing the assets available to creditors than a system that leaves creditors free to pursue their individual remedies and that it requires all like creditors to receive the same treatment. Provisions dealing with avoidance powers are designed to support these collective goals, ensuring that creditors receive a fair allocation of an insolvent debtor's assets consistent with established priorities and preserving the integrity of the insolvency estate. Avoidance provisions may also have a deterrent effect, discouraging creditors from pursuing individual remedies in the period

[94] See Introduction Chapter, p. 716.
[95] Footnote 5, p. 135.

> leading up to insolvency if they know that these may be reversed or their effects nullified on commencement. Transactions are typically made avoidable in insolvency to prevent fraud (e.g. transactions designed to hide assets for the later benefit of the debtor or to benefit the officers, owners or directors of the debtor); to uphold the general enforcement of creditors' rights; to ensure equitable treatment of all creditors by preventing favouritism where the debtor wishes to advantage certain creditors at the expense of the rest; to prevent a sudden loss of value from the business entity just before the supervision of the insolvency proceedings is imposed; and, in some States, to create a framework for encouraging out-of court settlement—creditors will know that last-minute transactions or seizures of assets can be set aside and therefore will be more likely to work with debtors to arrive at workable settlements without court intervention.[96]

The above passages from the UNCITRAL Guide describe a range of circumstances that, international experience suggests, commonly arise when debtors are financially distressed. Internationally, these circumstances generally fall into one or more of three broad categories (among others):[97]

> (i) transactions intended to defeat, hinder, or delay creditors from collecting their claims;
>
> (ii) transactions at an undervalue; and
>
> (iii) transactions that give preferential treatment to one or more creditors over other creditors.

UNCITRAL observes that such transactions "*generally disadvantage ordinary unsecured creditors.*"[98] Given the wide range of circumstances that might have this effect, an insolvency law must include multiple rules intended to cover different circumstances. This is reflected in the different articles in Chapter 6, which address various circumstances that conflict with the Equitable Treatment Principle.

Complexities Addressed in Chapter 6

International Perspectives—As mentioned, Chapter 6 protects the Equality of Treatment principle, by addressing both the variety of ways and the variety of transactions that can infringe this principle. To address this complexity, Chapter 6 categorizes these transactions across several distinct articles.

Another complexity arises from the fact that insolvency law embodies multiple principles that may at times conflict with one another. The invalidity proceedings set out in Chapter 6 is grounded on the Equitable Treatment Principle. This principle, however, may conflict with the more general—but also important—principle of protecting the predictability of contractual relations. As the IMF observes:

> This is particularly the case where the transactions and transfers are perfectly normal, but are voidable simply because they occurred in the proximity of the commencement of the proceedings.[99]

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[96] Footnote 5, p. 136.

[97] This is the position internationally and is mentioned to illustrate international experience. The categories where the Uzbek Court has the power to invalidate transactions are those identified in Chapter 6.

[98] This underscores the relevance of the Equitable Treatment Principle.

[99] Footnote 7, p. 35.

One way to address this conflict is to specify time periods during which the transaction must have occurred for it to be declared invalid. Different time periods may be specified for different categories of avoidance.

A second way to address the conflict is to balance the two principles through the design of the articles, by specifying the circumstances that will authorize a Court to invalidate transactions. Choices that are made here are reflected in the drafting of the articles, for example, between:

> (a) specifying objective criteria (for example, focusing on the objective effect of the transaction, such as *the effect* of preferring one creditor over creditors generally); and
>
> (b) specifying subjective criteria (for example, the subjective intention of the debtor in entering the transaction, such as *an intention* to prefer a particular creditor over other creditors); or
>
> (c) a combination of both.

As with the specification of time periods, there is no "correct" or "incorrect" approach to deciding among these drafting approaches. The manner of drafting simply reflects where the balance was struck between the competing principles mentioned above, when a country's insolvency law was drafted and enacted by its Parliament. Each Article must be interpreted in accordance with its terms.

Transactions Affected

International Perspectives—While the concept of "transaction" in Chapter 6 must be interpreted consistently with the meaning of each article under Uzbek law, international practice generally adopts a broad interpretation of "transaction" in this avoidance context. The UNCITRAL Guide observes:

> The use of the word “transaction” in this [context] is intended [as a matter of general international practice] to refer generally to the wide range of legal acts by which assets may be disposed of or obligations incurred, including by way of transfer, payment, encumbrance, guarantee, loan or release, and may include a composite series of such transactions.[100]

Evidence that the Transaction Fulfills Legislative Criteria to be Declared Invalid

International Perspectives—This is ultimately a matter for Uzbek law. Below are some examples of relevant international practices. It is important to note that the following passages from the UNCITRAL Guide are framed in general terms and relate to the interpretation of avoidance provisions in other countries' insolvency laws. While those laws relate to this topic, they are drafted differently and may contain significant differences. They are included in this commentary in case the observations on international practices are relevant to any of the articles in Chapter 6.

Where the value of a transaction is relevant to the power of the Court to invalidate it, the UNCITRAL Guide observes, as a matter of international practice:

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[100] Footnote 5, p. 135.

> Transactions would generally be avoidable where the value received by the debtor as the result of the transaction with a third party was either nominal or non-existent, such as a gift, or much lower than the true value or market price, provided the transaction occurred within the suspect period.[101]

The UNCITRAL Guide then offers the following observations regarding the extent of under-value:

> An important question in respect of these types of transaction is what constitutes a sufficient "undervalue" for the purposes of avoidance and how it can be determined. In many States, it is left to the courts to determine by reference to standards such as reasonable or market value prevailing at the time the transaction occurred on the basis of appropriate expert evidence. Where the relevant amounts in a transaction may not be certain, one approach to assist the court may be for the insolvency representative to provide the court with an estimated valuation of such amounts, which could be disputed upon the presentation of further evidence by the counterparty to the transaction. The court might also be given a power to specify a mode of determining the valuation rather than necessarily having to determine the value itself.[102]

One of the categories of transactions that may be challenged under Chapter 6 is the preferential satisfaction of the claims of one creditor over others. The following general comments, drawn from international experience with similar provisions, are relevant to this category:

> (a) To establish that a preference has occurred, international standards require evidence that the claim satisfied was a pre-existing debt at the time of satisfaction and that "*as a result of the transaction, the creditor received a larger percentage of its claim from the debtor's assets than other creditors of the same rank or class (in other words, a preference).*"[103]
>
> (b) Where there is a requirement that the claim satisfied was a pre-existing debt at the time of satisfaction, legal scrutiny focuses on evidence that the payment was for a debt that already existed, as opposed to circumstances where there was no pre-existing debt. Examples where there is no pre-existing debt include:
>
> - a *simultaneous* payment and delivery of the relevant goods or services;
> - a *pre-payment* for the goods or services.
>
> In both these examples, there is no preferential satisfaction of a claim because there was no pre-existing debt.
>
> (c) In many countries, granting a pledge to secure a pre-existing debt is regarded as preferential treatment of that creditor over other creditors. On the other hand, the simultaneous creation of the debt and the pledge (or the creation of the pledge before the debt has arisen) would not be regarded as preferential. Since the debt was not pre-existing, the creditor was not preferentially elevated from an unsecured to a secured status. In determining

[101] Footnote 5, p. 143.
[102] Footnote 5, p. 143.
[103] Footnote 5, p. 144.

whether there was a pre-existing debt, international experience suggests that the substance, rather than just the form, of the transaction must be carefully considered.

Article-by-Article Commentary

Articles 63 to 68

No Article specific commentary is offered in addition to the more general international commentary above.

CHAPTER 7

LIABILITY OF HEAD OF DEBTOR AND OTHER PERSONS IN AN INSOLVENCY CASE

International Perspectives—International practice varies with respect to the accountability of persons and entities who have been in control of a debtor that has become insolvent. International practice generally does not impose liability on such controllers of the debtor merely because the debtor has become insolvent. However, the approach is different if the insolvency arises due to the misconduct or negligence of those in control of the debtor. As the UNCITRAL Guide observes:

> If the consequence of the past conduct and behaviour of persons connected with an insolvent debtor is damage or loss to the creditors of the debtor (e.g. by fraud or irresponsible behaviour), it may be appropriate, depending upon the liability regimes applicable for fraud on the one hand and negligence on the other, for an insolvency law to provide for possible recovery of the damage or loss from the persons concerned.[104]

Internationally, a common element in the regulation of this area is the imposition of accountability on those who exercised control prior to the commencement of the insolvency proceeding where their conduct was wrongful (*e.g.*, misconduct).

The manner of addressing accountability differs between countries, as to:

- the identification of who is a controller;
- the standard of wrongfulness applied to the misconduct;
- the nature of available defenses;
- whether individual creditors may bring the proceedings, or alternatively, only the judicial administrator on behalf of all creditors collectively; and
- the nature of the remedies against the controller, provided specifically in the insolvency law.

Given these differences, little guidance can be drawn from international examples or practices, other than the specific policy observations identified in the passage from the UNCITRAL Guide quoted above.

Article-by-Article Commentary

Articles 69 to 77

No Article specific commentary is offered in addition to the more general international commentary above.

[104] Footnote 5, p. 171.

CHAPTER 8

MONITORING PROCEDURE

Introduction

International Perspectives—The specific purpose of the Insolvency Law is to address, collectively, all claims against a debtor when financial distress renders it insolvent or approaching insolvency.

The Insolvency Law provides for and regulates two principal paths: liquidation and rehabilitation. While the choice between these paths is fundamental, at the start of an insolvency proceeding it is often unclear which choice is appropriate, or even whether rehabilitation is a viable option. This uncertainty presents a challenge in designing an effective insolvency system, where the goal is to enable a decision that is both prompt and well-informed.

There is no single international practice that addresses this challenge. One practice that is widely used in insolvency laws of many countries is to provide, at the start of an insolvency proceeding, a process that allows a relatively short period of due diligence by an independent party to:

- assess the financial condition of the debtor;
- explore whether a form of rehabilitation may be feasible; and
- compare the options for rehabilitation against the likely outcome from liquidation.

Importantly, while this process is underway and a report is being prepared for creditors, the debtor's assets and business must be protected.

The monitoring procedure set out in Chapter 8 of the Insolvency Law is consistent with the common international process described above.

Before turning to the specific Articles in Chapter 8, it may be helpful first to:

- explain the key concepts relevant to the choice between liquidation and rehabilitation that is central to the design of the Monitoring Process in Chapter 8; and
- identify international practices and perspectives where the same choice, and similar design features, are present in the insolvency laws of other countries.

Value, Its Preservation and Protection—International Perspectives

Importance of "Value" in an Insolvency Law

International Perspectives—A key goal of an insolvency law is "*to protect and maximise value for the benefit of all interested parties and the economy in general*".[105] The importance of this goal is internationally recognized:

> Participants in insolvency proceedings should have strong incentives to achieve maximum value for assets, as this will facilitate higher distributions to creditors as a whole and reduce the burden of insolvency.[106]

The IMF observes:

> This objective is most obviously pursued during rehabilitation, where value is maximized by continuing a viable enterprise. But it is also a primary objective of procedures that liquidate enterprises that cannot be rehabilitated.[107]

UNCITRAL warns, however, that the availability of rehabilitation processes *"should not result in establishing a safe haven for moribund enterprises: enterprises that are beyond rescue should be liquidated as quickly and efficiently as possible"*.[108]

Similarly, the World Bank observes:

> Where an enterprise is not viable, the main thrust of the law should be swift and efficient liquidation to maximize recoveries for the benefit of creditors. Liquidations can include the preservation and sale of the business, as distinct from the legal entity. On the other hand, where an enterprise is viable, meaning that it can be rehabilitated, its assets are often more valuable if retained in a rehabilitated business than if sold in a liquidation.[109]

Thus, to summarize these general international perspectives on "value":

(i) Where a debtor cannot be successfully rehabilitated, an efficient liquidation process is generally the most effective means of maximizing the value of the debtor's assets for the benefit of creditors. However, this may not always be the case. In some circumstances, a planned and phased wind-down of the debtor's business may be better achieved—and may produce a higher return to creditors—through a rehabilitation, rather than liquidation.

(ii) Where a debtor can be successfully rehabilitated, and a rehabilitation process will likely produce higher "value" than liquidation, rehabilitation is more likely to be the preferred outcome of the insolvency proceeding.

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[105] Footnote 7, p. 6.
[106] Footnote 5, p. 10.
[107] Footnote 7, pp. 6-7.
[108] Footnote 5, pp. 15–16.
[109] Footnote 2, pp. 7-8.

Assessment of Value to Creditors, and the Necessary Balancing of Different Policy Objectives

International Perspectives—Since the concept of "value" is at the center of an insolvency proceeding, its assessment is vital, particularly to the choice between liquidation and rehabilitation.

An important metric for assessing value is the estimated return to creditors (and, potentially, shareholders) between liquidation and a proposed rehabilitation. If this comparison indicates that rehabilitation will yield a higher return to creditors, rehabilitation becomes the preferred option, provided that other material factors, such as the risk of failure of the rehabilitation attempt, are also considered.

International experience suggests, as a general proposition, that if the debtor has a viable business, rehabilitation will likely produce a higher return than liquidation. The UNCITRAL Guide explains this proposition in the following terms:

> This is predicated on the basic economic theory that greater value may be obtained from keeping the essential components of a business together, rather than breaking them up and disposing of them in fragments.[110]

However, the correctness of this proposition must be carefully considered in each unique circumstance. It will be incorrect where the business does not remain financially viable (although a rehabilitation aimed at an orderly wind-down of the business, or at continuing to trade for a limited period to facilitate a sale on a "going concern" basis, may require consideration).

In addition, rehabilitation carries the risk that it may not succeed and that the debtor may fail to achieve the plan's objectives. If the rehabilitation fails, it may produce a lower return to creditors than would have been achieved with a prompt liquidation. These risks must be carefully considered.

Also, where rehabilitation requires more capital, there is a risk that the proposed investment will not be made.

"Value" Has a Wider Meaning in Insolvency Law Than Simply a Measure of Return to Creditors

International Perspectives—A key goal of an insolvency law is "*to protect and maximise value for the benefit of all interested parties* ***and the economy in general.****"*[111]

This statement from the IMF Guide underscores that "value" is not measured only by returns to the "*interested parties*" but also considers "*the economy in general.*"

This means that, as a matter of international policy and practice, “value” is understood more broadly than the potential increase in dividends to creditors from a successful rehabilitation. Other measures of "value" associated with a rehabilitation are often considered:

> while some countries view rehabilitation procedures as providing a way to enhance the value of creditors' claims through the going-concern value of the enterprise; other countries also view it as a means of providing a "second

[110] Footnote 5, p. 11.
[111] Footnote 7, p. 6, emphasis added.

chance" to the shareholders and the management of the debtor. Still others view the continuation of the enterprise as primarily benefiting the employees.[112]

The World Bank Guide highlights the relevance of the following value considerations:

> The rescue of a business preserves jobs, provides creditors with a greater return based on higher going concern values of the enterprise, potentially produces a return for owners, and obtains for the country the fruits of the rehabilitated enterprise.[113]

The UNCITRAL Guide identifies additional value considerations such as "*protecting employment", "protecting the interests of creditors",* and *"encouraging the development of an entrepreneurial class*".[114]

As the IMF Guide observes, giving a failed enterprise *"a second chance"* supports the goal of developing an entrepreneurial class.[115]

Even when value is measured solely from the perspective of the returns to creditors, international policy and practice recognize that value is not limited to the likelihood of receiving a higher dividend. Other measures of success may also be relevant. Where rehabilitation is successful, and the debtor's business continues, there is inherent value for the creditors in retaining the debtor as their customer. That is, a successful rehabilitation may not only improve dividend outcomes but also generate future profitable trading opportunities for creditors.

In addition, there may be broader social cohesion considerations that represent measures of value. For example, if a town or village is financially dependent on the debtor that is the main (or sole) employer in the region, liquidation and business closure may result in significant social dislocation.

However, not all measures of "value" point towards the desirability of a rehabilitation. There are, for example, some economic benefits of liquidation:

> Viewed from the perspective of the economic policymaker, and in light of the above objectives, an effective insolvency law can clearly play a critical role in a number of areas. Generally, the discipline it imposes on a debtor increases the competitiveness of the enterprise sector and facilitates the provision of credit.[116]

Some economists argue that allowing inefficient businesses to be liquidated can be beneficial because it enables more efficient businesses to supply the same goods or services in a more competitive market. That is, the liquidation of a failing business may enhance market competitiveness.

The wider impact of new investment must also be considered:

> [A] balance has to be struck between rapid liquidation and longer-term efforts to reorganize the business that may generate more value for creditors, between the need for new investment to preserve or improve the value of assets and the implications and cost of that new investment on existing stakeholders…[117]

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[112] Footnote 7, p. 7.
[113] Footnote 2, p. 8.
[114] Footnote 5, pp. 14-15.
[115] Footnote 7, p. 53.
[116] Footnote 7, p. 8.
[117] Footnote 5, p. 11.

These considerations go further than a strict mathematical comparison of the returns to creditors under liquidation and rehabilitation. They reflect broader economic and social considerations beyond the impact of the insolvency proceeding on the debtor and its creditors.

Making the Assessment between Rehabilitation and Liquidation

International Perspectives—The Insolvency Law presents multiple instances in which a choice must be made between liquidation and rehabilitation. A decision may be required towards the start of the insolvency proceeding, or later in the process.

Chapter 8 allows this choice to be made relatively early in the proceedings and is intended to enable an informed decision. If circumstances change after a choice is made, it may be necessary to reconsider the choice and convert to another process. This opportunity is provided throughout the Insolvency Law.

The choice requires value judgements as to the more appropriate course of action:

> Modern rescue procedures typically address a wide range of commercial expectations in dynamic markets. **Though insolvency laws may not be susceptible to fixed formulas, modern systems generally rely on design features to achieve the objectives outlined above.**[118]

The sentence emphasized above (in bold) makes an important point—these considerations cannot be reduced to a fixed formula inserted within an insolvency law. Such an approach is not feasible, given the wide range of considerations that may be relevant to a debtor's particular circumstances. Instead, insolvency laws require a choice, taking into account the debtor's specific circumstances. In this respect, internationally recognized standards and practices may provide relevant background and context.

Generally, if a rehabilitation is deemed viable, the estimated return to creditors under a proposed rehabilitation can be compared to that under liquidation. The higher likely outcome for creditors is usually favored, assuming risk considerations have also been carefully considered. However, the broader factors outlined above may play an important role in assessing options, as a matter of international standards and practices.

Article-by-Article Commentary

Article 78

International Perspectives—Article 78 addresses the status of the insolvency proceeding at the time of its commencement. International experience suggests that three different approaches are taken in this issue. Under the first approach, proceedings must commence as a liquidation, with the possibility of conversion to a rehabilitation proceeding if appropriate. Under the second, the proceeding must commence as a rehabilitation, with the possibility of later conversion to liquidation. The third approach is described in the UNCITRAL Guide as follows:

[118] Footnote 2, p. 8, emphasis added.

> Under a further approach, the effect of the application is neutral and the choice between reorganization and liquidation will only be made after a period of assessment of the debtor's financial situation.[119]

This third approach is reflected in Article 78. The IMF Guide observes that this approach has a practical advantage:

> as a matter of practice…it is often impossible to tell, at the time of commencement, whether the debtor should be liquidated or rehabilitated.[120]

For this reason, a monitoring process such as that in Chapter 8 is commonly adopted internationally.

Article 79

International Perspectives—Once the monitoring procedure has commenced, certain protections for the debtor take effect, as provided in this Article. This is consistent with international practice, the rationale for which is explained in the UNCITRAL Guide as follows:

> With regard to creditors, one of the fundamental principles of insolvency law is that insolvency proceedings are collective proceedings, which require the interests of all creditors to be protected against individual action by one of them. Many insolvency laws include a mechanism to protect the value of the insolvency estate that not only prevents creditors from commencing actions to enforce their rights through legal remedies during some or all of the period of the liquidation or reorganization proceedings, but also suspends actions already under way against the debtor. Such a mechanism is variously termed a "moratorium", "suspension" or "stay", depending on the effect of the mechanism.[121]

Further explanation of the rationale is provided in the IMF Guide:

> In addition, since the design of a rehabilitation procedure needs to take into consideration the objective of encouraging debtors to attempt to rehabilitate as early as possible, the imposition of a stay on the ability of creditors to enforce legal remedies provides an important incentive for debtors to initiate rehabilitation proceedings. Moreover, since rehabilitation proceedings are also designed to maximize the value of creditor claims through the rehabilitation of the enterprise, such a stay will not, in and of itself, be inconsistent with the interests of creditors.[122]

Article 79 also addresses the debtor's contractual dealings after the monitoring procedure has commenced. Relevant considerations on similar contractual issues are set out in Article 96 of this commentary.

The monitoring procedure in Chapter 8 is not a rehabilitation procedure; rather, it is an interim process to determine whether rehabilitation is viable and appropriate. This purpose would be undermined if the contractual rights set out in Part 3 of Article 79 were enforced in a way that prevented a viable rehabilitation. These protections, however, interfere with contractual relations. Parts 4, 5, and 6 of Article 79, therefore,

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[119] Footnote 5, p. 48.
[120] Footnote 7, p. 16.
[121] Footnote 5, p. 83.
[122] Footnote 7, pp. 56-57

provide protections for the contract counterparty, in order to balance the competing policy interests involved.

Article 80

International Perspectives—The termination of the debtor's financial obligations by mutual settlement of an alternative counterclaim is internationally known as a method of "set-off". Article 80 addresses the issue of set-off while a debtor is under a monitoring procedure. This is relevant to the insolvency proceedings because, at the time the proceedings commence, some creditors may not only hold claims against the debtor but also owe the debtor money.

From an international perspective, the treatment of set-off varies across countries. In some countries, the Equitable Treatment Principle[123] is understood to require that "*the [judicial manager] should be able to receive the full amount owed by the creditor and the creditor's claim would be satisfied to the extent to which all other unsecured creditors get satisfied upon the liquidation of the estate*."[124] That is, the judicial manager (here, the temporary manager) collects the creditor's debt to the debtor in full, while the creditor receives a dividend on its claim against the debtor**,** in the same manner as all other ordinary unsecured creditors.

Other countries balance the competing policy considerations differently, allowing claims by and against the creditor to be set off against each other before any remaining claim is submitted for dividend.[125] Countries taking this approach place greater importance on the following policy perspectives:

> The first is that of fairness: notwithstanding the importance of equality of treatment among creditors, it is considered unfair for a debtor to refuse to make payment to a creditor but, at the same time, to insist upon payment from that creditor. In addition, since many counterparties are banks, the right of set-off is particularly beneficial to the banking system and, because of the important credit creation role of banks, is therefore considered to be of general benefit to the economy. By virtue of their core functions (lending and deposit taking), banks that have lent to an entity that has gone bankrupt will often find that they have financial obligations to the debtor in the form of deposits. A post-commencement right of set-off would allow the banks to offset their unpaid claims with the debtor's deposits even though these reciprocal claims are not yet due and payable.[126]

Other approaches are also taken. For example, some countries allow set-off only if the claims arise from the same transaction.[127]

Thus, there is no single international practice on the application of set-off. In Uzbekistan, the application of set-off in a monitoring procedure must be consistent with the interpretation of Article 80.

Article 81

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[123] See commentary discussing the Equitable Treatment Principle in the Introduction Chapter, at p. 716.
[124] Footnote 7, p. 42.
[125] Conversely, if the claim against the debtor is less than the claim by the debtor, then it is only the net balance that is payable to the debtor, when the country's insolvency laws permit set-off in insolvency.
[126] Footnote 7, p. 42.
[127] Footnote 7, p. 42.

International Perspectives—Key internationally recognized objectives of insolvency proceedings relate to the preservation and protection of the debtor's assets. The IMF Guide observes:

> An essential objective of an effective insolvency system is the establishment of a protective mechanism to ensure that the value of the estate's assets is not diminished by the actions of various parties in interest. The parties from whom the estate needs the greatest protection are the debtor and its creditors.

In the context of a monitoring procedure, Article 81 addresses the need for protection against the debtor. It seeks to achieve a balance between enabling the debtor's management to continue conducting ordinary business during the monitoring procedure and protecting against decisions and transactions that may undermine the objectives of the insolvency process.

Articles 83 and 84

International Perspectives—The Temporary Manager plays a central role in the monitoring procedure. To enable the performance of this critical role, Articles 83 and 84 confer specific rights, powers, and obligations. International practice reflects similar frameworks to achieve the purposes of this monitoring procedure.

The primary purpose of the Temporary Manager's role is to compile the report described in the final part of Article 84. One of the most important decisions in any insolvency proceeding is the choice between placing the debtor in liquidation or pursuing one of the rehabilitation processes. Thus, from an international perspective, the importance of a well-informed report—and of the temporary manager's diligence in preparing it—cannot be overstated.

The length and complexity of both the enquiries and the report nevertheless depend, as a matter of international practice, on the size and complexity of the debtor and its business. If, as is the case with many debtors, their financial position is beyond recovery, the level of enquiry may not need to be as thorough, nor the report as lengthy, as might otherwise be necessary.

Article 86

International Perspectives—The analysis required of the temporary manager is key to the purpose of this monitoring procedure. Determining the possibility (or impossibility) and desirability of rehabilitating the debtor will inform the decision whether to proceed with liquidation or pursue a rehabilitation option. The preparation of proposals for outlining how a rehabilitation might be achieved is similarly important.

The ability of the debtor's property to cover court costs and remuneration is also essential, particularly for smaller debtors subject to the Monitoring Process.

The final part of Article 86 permits the temporary manager to appoint a specialized organization to determine the debtor's financial condition. While this may be unnecessary for small and medium-sized companies, a large or complex enterprise may present challenges that require specialized expertise.

Article 88

International Perspectives—Reference is made to the international commentary regarding creditor meetings that is set out in the commentary to Chapter 2.

Articles 89, 90, and 91

International Perspectives—The decisions identified in these articles are the key outcomes that Chapter 8 is designed to produce.

As to the role of creditors in making these decisions, reference is again made to the international commentary regarding creditor meetings in Chapter 2.

CHAPTER 9

JUDICIAL REHABILITATION PROCEDURE

Introduction

International Perspectives—Across the world, an important choice generally required in an insolvency proceeding is whether the process should culminate in liquidation or rehabilitation. In most proceedings, liquidation will be the likely choice because rehabilitation will not be viable. As the UNCITRAL warns, the availability of rehabilitation processes "*should not result in establishing a safe haven for moribund enterprises: enterprises that are beyond rescue should be liquidated as quickly and efficiently as possible.*"[128]

However, there will often exist an opportunity for rehabilitation, and a decision will need to be made between rehabilitation and liquidation. Rehabilitation has been described in the following terms by the IMF:

> The overall economic objective of rehabilitation procedures is to enable a financially distressed enterprise to become a competitive and productive participant in the economy, thereby benefiting not only the stakeholders of the enterprise (owners, creditors, and employees) but also the economy more generally. For a rehabilitation procedure to achieve this objective, it must create incentives for all stakeholders to participate in the proceedings, or—when necessary—prevent some stakeholders from undermining it. Thus, for example, the features of the procedures must be sufficiently attractive to encourage debtors to commence proceedings sufficiently early on in their financial difficulties, thereby increasing the chance of rehabilitation. On the other hand, the rehabilitation procedure must provide sufficient protection to creditors to gain their confidence that it will not be used merely as a device by a nonviable enterprise to delay liquidation, during which time the value of their claims will deteriorate.[129]

UNCITRAL expresses the purpose of rehabilitation more succinctly:

> The purpose of reorganization is to maximize the possible eventual return to creditors, providing a better result than if the debtor were to be liquidated and to preserve viable businesses as a means of preserving jobs for employees and trade for suppliers.[130]

The interrelationship between liquidation and rehabilitation is relevant throughout the Insolvency Law, often framed as a choice between the two. From an international practice perspective, three main observations can be made about this interrelationship.

First, the distinction between the two can become blurred, with similar outcomes capable of being achieved under either process:

> With respect to the substantive issues that these procedures must address, there is also considerable overlap. This is due (at least in part) to the fact that the distinction between a "liquidation" and a "rehabilitation" is somewhat blurred. How does one classify the sale of an enterprise as a going concern?

[128] Footnote 5, pp. 15-16.
[129] Footnote 7, p. 52.
[130] Footnote 5, p. 209.

> From one perspective, it can be viewed as a rehabilitation, because the enterprise continues its activities and employment is preserved. From another perspective, it can be viewed as a liquidation of the debtor's assets because the company that owns the enterprise is liquidated and the enterprise (as an economic unit) is now under new ownership. If, as in most cases, the sale of an enterprise as a going concern is considered a possible outcome of a liquidation proceeding, the continuation of the enterprise becomes just as critical as under a rehabilitation procedure, so similar safeguards regarding the stay on creditor actions and the treatment of contracts may be required.[131]

Second, despite the ability, on occasion, to achieve similar outcomes, it is the selected process whose rules will apply.

Third, because of the overlap between the two procedures and the common focus on "value," its preservation and maximization, there are usually multiple protections benefiting the debtor that are common to both liquidation and rehabilitation.

Chapter 9 enables identified stakeholders to apply to the court to commence a rehabilitation procedure for the debtor. Several considerations will inform the decision to file the petition and, where applicable, whether the court should make the order for rehabilitation. Most of these considerations relate to the concept of "value," and whether a rehabilitation proceeding under Chapter 9 will maximize value more effectively than liquidation. Value, in this context, is a complex concept. International policy and practice has identified many aspects to the concept. These are identified and discussed in the Introduction of Chapter 8.[132]

Article-by-Article Commentary

Article 93

International Perspectives—International practice suggests that rehabilitation should be considered as an option for a debtor throughout the insolvency process. Article 93 provides an early opportunity for rehabilitation to commence.

International policy and practice identifies two key issues regarding rehabilitation proceedings. The first is the timing for the plan to be proposed. The second is identifying the stakeholders who can propose a plan. Both these important issues are dealt with, in relation to the judicial rehabilitation procedure, in Article 93.

Various parties may propose a judicial rehabilitation procedure, including the debtor's founders. International practice suggests that allowing founders to propose such a procedure may have "*the advantage of encouraging debtors to commence reorganization proceedings at an early stage and, where the plan envisages the ongoing operation of the debtor's business, of making the best use of the debtor's familiarity with its business and knowledge of the steps necessary to make the insolvent business viable. The freedom accorded to the debtor in this regard may need to be balanced against the need to ensure creditor confidence in the debtor and its proposal. The benefits of such an approach also may be clear where key*

[131] Footnote 7, p. 17.
[132] Please see Chapter 8 at pp. 748 – 751.

management personnel of the debtor are necessary to the success of the business (e.g., because of its complexity) or will be difficult to replace in the short term."[133]

Article 94

International Perspectives—Article 94 provides for action taken by the committee of creditors or by a creditors' meeting. Regarding international practice on such requirements, the detailed international commentary on creditor meetings and creditor committee meetings in Chapter 2 is relevant.[134]

As a matter of international practice, one important consideration when deciding whether to approve a rehabilitation plan is the risk of non-compliance (or lack of evidence of ability to comply) with the payment obligations in the plan. This Article seeks to address this important issue.

Article 95

International Perspectives—Part 3 of Article 95 establishes an appeal process and allows the judicial rehabilitation procedure to continue while the appeal is heard and determined. Since the continuation of the judicial rehabilitation procedure affects the rights of all participants, international judicial practice in similar circumstances is to expedite the hearing and decision on the appeal. This reflects the "Efficiency Principle" described in the Introduction of this commentary,[135] which is important to maintaining confidence in the system.

Part 4 of Article 95 sets a time limit for the conclusion of the judicial rehabilitation procedure. A time limit is consistent with international practice (although the duration varies by country), illustrating the "Efficiency Principle" described in the Introduction to this commentary.[136] This efficiency is important to maintaining confidence in the insolvency system.

Article 96

International Perspectives—Article 96 provides for decision-making by a committee of creditors or at a creditors meeting. In terms of international practice regarding such decisions, please refer to the commentary in Chapter 2[137] regarding the importance of meetings of creditors and committees of creditors.

The treatment of contracts in Part 5 of Article 96 and subsequent parts reflects how the Insolvency Law addresses important policy issues regarding significant contracts, valuable contracts, and so-called "*ipso facto clauses.*" From an international policy and practice perspective, the protection and maximization of value is an important principle.[138] This principle is relevant to significant and valuable contracts where a rehabilitation procedure is undertaken.

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[133] Footnote 5, p. 212.
[134] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).
[135] See Introduction Chapter, p. 715.
[136] See Introduction Chapter, p. 715.
[137] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).
[138] See the discussion around the concept of "Value" in Chapter 8, pp. 748–751.

The restrictions in Part 5 of Article 96 on dealings with significant assets and transactions, and the requirement of creditor consent, serve to protect the judicial rehabilitation procedure and are consistent with international practice in addressing such matters.

As to Parts 6, 7, 8, 9, and 10 of Article 96 addressing contracts and transactions, the IMF Guide observes:

> The policy choices regarding the breadth of the power to interfere with contractual terms become particularly important in the context of rehabilitation procedures. Broad powers to continue or terminate contracts will significantly enhance the possibility of rehabilitation.[139]

The UNCITRAL Guide expresses the international policy considerations in the following way:

> In reorganization, where the objective of the proceedings is to enable the debtor to survive and continue its affairs to the extent possible, the continuation of contracts that are beneficial or essential to the debtor's business and contribute value to the estate may be crucial to the success of the proceedings. These may include contracts for the supply of essential goods and services or contracts concerning the use of property crucial to the continued operation of the business, including property owned by third parties.[140]

More specifically, the IMF Guide warns:

> Specifically, if a country does not provide for the nullification of contract termination clauses upon the commencement of rehabilitation, it will be more difficult for the enterprise to rehabilitate if the contracts in question are critical, such as lease agreements.[141]

This issue is further complicated where an "*ipso facto*" clause is present in the debtor's contracts. These are clauses which allow termination of the contract if a rehabilitation procedure is commenced, even if no other default exists. The complication arises because insolvency laws must balance competing policy issues—for example, should the insolvency law respect the contract's original terms or should it protect the rehabilitation procedure by preventing the exercise of this clause? Policy reasons for taking this second approach include "*the need to keep the business together to maximize its sale value or to enhance its earnings potential; to capture the value of the contract for the benefit of all creditors rather than forfeiting it to the counterparty; and the desirability of locking all parties into the final disposal of the business*."[142]

The policy choice on this issue made by the Uzbek Parliament in enacting the Insolvency Law is reflected in Article 96, which provides that *ipso facto* clauses are "*invalid, except for the cases provided for by this law*." That is, subject to the stated exceptions, neither the debtor nor the counterparty may rely on such clauses to terminate contracts entered into by the debtor.

Parts 8 and 9 of Article 96 address situations in which a contract is burdensome to the debtor. The UNCITRAL Guide observes:

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[139] Footnote 7, p. 72.
[140] Footnote 5, p. 121.
[141] Footnote 7, p. 71.
[142] Footnote 5, p. 123.

> Similarly, the prospects of success [of a rehabilitation] may be enhanced by allowing the insolvency representative to reject burdensome contracts, such as those contracts where the cost of performance is higher than the benefits to be received or, in the case, for example, of an unexpired lease, the contract rate exceeds the market rate.[143]

International practice is to specifically identify the circumstances in which a debtor may refuse to perform such contracts. The policy choice on this issue made by the Uzbek Parliament in enacting the Insolvency Law is reflected in Parts 5 and 6 of Article 96, which grant the power to terminate contracts in the specific circumstances identified.

Article 98

International Perspectives—Article 98 sets out the rights and responsibilities of the rehabilitation manager. International policy and procedure consider the rehabilitation manager to be important to the judicial rehabilitation process under Chapter 9. The rehabilitation manager's responsibilities aim to ensure that rehabilitation under this chapter is implemented consistently with the law and to achieve the chapter's objectives.

The obligation imposed by Part 1 of Article 98 on the rehabilitation manager to provide the identified information to creditors reflects the crucial policy of transparency described under the heading "Transparency Principle" in the Introduction to this commentary.[144]

Article 99

International Perspectives—The obligation imposed by Part 1 of Article 99 on the rehabilitation manager to provide the identified information to creditors reflects the crucial policy of transparency, described under the heading "Transparency Principle" in the Introduction.[145]

Article 100

International Perspectives—International policy and practice recognizes several advantages in allowing the head of the debtor, the founders (as defined) of the debtor, or the owner of the debtor's property to prepare and submit a judicial rehabilitation plan as provided under Part 1 of Article 100. These parties understand the business best. Their perspective on what is needed for a successful rehabilitation will most likely be the most informed.

In addition, the IMF Guide observes that this approach incentivizes the use of the rehabilitation procedure:

> If the debtor is denied this opportunity [to submit a plan for rehabilitation], it will have less of an incentive to utilize the rehabilitation procedure.[146]

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[143] Footnote 5, p. 121.
[144] See Introduction Chapter, p. 714.
[145] See Introduction Chapter, p. 714.
[146] Footnote 7, p. 61.

Another advantage is the value to the broader economy of the promotion of the entrepreneurial class, achieved where entrepreneurs are given "a second chance":

> Moreover, given that—at least for some countries—one of the objectives of a rehabilitation procedure is to foster an entrepreneurial class, denying the debtor the opportunity to prepare a plan (which will presumably involve the debtor retaining some equity and/or some management role) would undermine this objective because it would effectively deny the debtor the possibility of having a "second chance." [147]

This “second chance” is facilitated in Chapter 9 by including the owners of the business among the stakeholders permitted to prepare and submit a plan, as provided in Part 1 of Article 100.

Parts 2, 3, 4, 6, 10, 11, 18, and 22 of Article 100 specify matters that must or may be included in the plan. This requirement serves the important Predictability Principle set out under that heading in the Introduction.[148]

Part 4 of Article 100 provides an opportunity to convert debt into shares, subject to additional requirements specified, consistent with international practice that permits debt-to-equity conversions in rehabilitation. There is no single international approach to identifying the additional requirements to be specified in the law. Nevertheless, it is common, as here, to require a separate shareholders’ vote with a higher percentage threshold.

Part 10 of Article 100 provides for the opportunity to recapitalize, subject to additional requirements specified. This is consistent with international practice, although there is no single international approach to identifying the additional requirements.

Similarly, Part 11 of Article 100 permits the sale of the debtor's business or part of its property, subject to the additional requirements specified, which is consistent with international practice.

Parts 7, 8, 9, 12, 14, 16, 19, 20, and 21 of Article 100 specify the manner in which creditors participate in the process of approval or rejection of the proposed judicial rehabilitation plan. Chapter 2 of the international commentary discusses the important role played by creditors in insolvency processes.

Part 9 of Article 100 specifies the consequence of the creditors’ failure to adopt a resolution to approve the plan in accordance with the specified procedure. The resulting transition to liquidation is consistent with international practice.

Part 13 of Article 100 reflects the highly important Integrity Principle set out in the Introduction.[149] Where there is abuse, "*it is important that the law provide for a mechanism to convert the rehabilitation proceeding into [another process]".*[150]

With respect to Part 14 of Article 100, reference is made to the Introduction to Chapter 8 of this international commentary, which discusses the choice between rehabilitation and liquidation. As stated there, it is important to allow this choice to be reconsidered if circumstances change. Part 14 of Article 100 provides that opportunity under the identified circumstances.

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[147] Footnote 7, p. 61.
[148] See Introduction Chapter, p. 715.
[149] See Introduction Chapter, p. 714.
[150] Footnote 7, p. 59.

Part 17 of Article 100 reflects the crucial Transparency Principle set out in the Introduction.[151]

Article 103

International Perspectives—Regarding early termination, reference is made to the Introduction to Chapter 8 of the International Commentary discussing the choice needed between rehabilitation and liquidation. As stated there, it is important to allow the choice to be reconsidered if circumstances change. Part 14 of Article 103 provides that opportunity where grounds for early termination have occurred. This reflects the importance of preserving value. It also indicates the need for flexibility, where a different insolvency process will likely produce a superior result due to a change in circumstances.

Article 104

International Perspectives—The documentation and information requirements of Part 1 of Article 104 reflect the Transparency Principle discussed in the Introduction.[152]

With respect to Part 4 of Article 104, reference is made to the introduction to Chapter 8 of this international commentary, on the choice needed between rehabilitation and liquidation.[153] As indicated there, it is important to permit the choice to be reconsidered if circumstances change. Part 4 provides that opportunity under the identified circumstances.

Article 106

International Perspectives—The documentation and information requirements of Part 1 of Article 106 reflect the Transparency Principle discussed in the Introduction.[154]

In terms of the final sentence, reference is made to the Introduction to Chapter 8 of this international commentary on the choice needed between rehabilitation and liquidation.[155] As indicated there, it is important to allow that choice to be reconsidered if circumstances change. This final sentence provides that opportunity under the identified circumstances.

Article 107

International Perspectives—In terms of Part 1 of Article 107, reference is made to the Introduction to Chapter 8 of this international commentary on the choice needed between rehabilitation and liquidation.[156] As indicated there, it is important to allow that choice to be reconsidered if circumstances change. This final sentence provides that opportunity under the identified circumstances.

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[151] See Introduction Chapter, p. 714.
[152] See Introduction Chapter, p. 714.
[153] See Chapter 8, p. 751.
[154] See Introduction Chapter, p. 714.
[155] See Chapter 8, p. 751.
[156] See Chapter 8, p. 751.

CHAPTER 10

EXTERNAL MANAGEMENT PROCEDURE

Introduction[157]

International Perspectives—In insolvency frameworks across the world, an important choice generally required is whether the process should culminate in liquidation or rehabilitation. In most proceedings, liquidation will be the default choice because rehabilitation will not be viable. As the UNCITRAL warns, the availability of rehabilitation processes "*should not result in establishing a safe haven for moribund enterprises: enterprises that are beyond rescue should be liquidated as quickly and efficiently as possible."*[158]

However, there will often exist an opportunity for rehabilitation, and a decision will need to be made between rehabilitation and liquidation. Rehabilitation has been described in the following terms by the IMF:

> The overall economic objective of rehabilitation procedures is to enable a financially distressed enterprise to become a competitive and productive participant in the economy, thereby benefiting not only the stakeholders of the enterprise (owners, creditors, and employees) but also the economy more generally. For a rehabilitation procedure to achieve this objective, it must create incentives for all stakeholders to participate in the proceedings, or—when necessary—prevent some stakeholders from undermining it. Thus, for example, the features of the procedures must be sufficiently attractive to encourage debtors to commence proceedings sufficiently early on in their financial difficulties, thereby increasing the chance of rehabilitation. On the other hand, the rehabilitation procedure must provide sufficient protection to creditors to gain their confidence that it will not be used merely as a device by a nonviable enterprise to delay liquidation, during which time the value of their claims will deteriorate.[159]

UNCITRAL expresses the purpose of rehabilitation more succinctly:

> The purpose of reorganization is to maximize the possible eventual return to creditors, providing a better result than if the debtor were to be liquidated and to preserve viable businesses as a means of preserving jobs for employees and trade for suppliers.[160]

The interrelationship between liquidation and rehabilitation is relevant throughout the Insolvency Law, often framed as a choice between the two. From an international practice perspective, three main observations can be made about this interrelationship.

First, the distinction between the two can become blurred, with similar outcomes capable of being achieved under either process:

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[157] This Introduction is the same as the Introduction for Chapter 9. This is because Chapter 9 and this Chapter 10 both comprise rehabilitation procedures, and thus the introductory international commentary around rehabilitation procedures is the same for both chapters.
[158] Footnote 5, pp. 15-16.
[159] Footnote 7, p. 52.
[160] Footnote 5, p. 209.

> With respect to the substantive issues that these procedures must address, there is also considerable overlap. This is due (at least in part) to the fact that the distinction between a "liquidation" and a "rehabilitation" is somewhat blurred. How does one classify the sale of an enterprise as a going concern? From one perspective, it can be viewed as a rehabilitation, because the enterprise continues its activities and employment is preserved. From another perspective, it can be viewed as a liquidation of the debtor's assets because the company that owns the enterprise is liquidated and the enterprise (as an economic unit) is now under new ownership. If, as in most cases, the sale of an enterprise as a going concern is considered a possible outcome of a liquidation proceeding, the continuation of the enterprise becomes just as critical as under a rehabilitation procedure, so similar safeguards regarding the stay on creditor actions and the treatment of contracts may be required.[161]

Second, despite the ability, on occasion, to achieve similar outcomes, it is the selected process whose rules will apply.

Third, because of the overlap between the two procedures and the common focus on "value," its preservation and maximization, there are usually multiple protections benefiting the debtor that are common to both liquidation and rehabilitation.

Chapter 10 enables identified stakeholders to apply to the court to commence an External Management procedure for the debtor. Several considerations will inform the decision to file the petition and, where applicable, whether the court should make the order for External Management under Chapter 10, Sanation under Chapter 9 or Liquidation under Chapter 11. Many of those considerations relate to the concept of "value" and whether the selected process will maximize value more effectively than liquidation. Value, in this context, is a complex concept. International policy and practice has identified many aspects to the concept. These are identified and discussed in the Introduction of Chapter 8.[162]

Article-by-Article Commentary

Article 108

International Perspectives—As indicated in the Introduction of this chapter, international practice suggests that "*enterprises that are beyond rescue should be liquidated as quickly and efficiently as possible.*"[163] This practice is consistent with the requirement in Article 108, which provides that the External Management Procedure in Chapter 10 is only available "*if a real possibility of restoring the debtor's solvency is established.*"

Article 108 also sets time limits within which the process must conclude. The existence of time limits is also consistent with international practice, as explained in the UNCITRAL Guide:

> Insolvency should be addressed and resolved in an orderly, quick and efficient manner, with a view to avoiding undue disruption to the business activities of the debtor and to minimizing the cost of the proceedings.

[161] Footnote 7, p. 17.
[162] Please see Chapter 8 at pp. 748-751.
[163] Footnote 5, pp. 15-16.

> Achieving timely and efficient administration will support the objective of maximizing asset value …[164]

One of the consequences of failing to meet the prescribed time limits under Article 108 when time limits are not met is the conversion of the insolvency proceeding to liquidation. This consequence is consistent with international practice, which regards the ability to transition—both from rehabilitation to liquidation and vice versa—as an important aspect of flexibility in an insolvency system.

Article 109

International Perspectives—From an international perspective:

> There is considerable debate about the extent to which rehabilitation proceedings should also result in the displacement of the debtor from the management of the enterprise once rehabilitation proceedings commence, and there is no uniformity regarding the way countries address this issue.[165]

Under the judicial rehabilitation procedure in Chapter 9, the debtor's management retains control over the debtor's business operations subject to identified restrictions (set out in Article 96 of Chapter 9). In contrast, the External Management Procedure in Chapter 10 displaces existing management and appoints an independent external manager, with powers to manage the debtor and its business. The availability of these alternative rehabilitation paths in Chapters 9 and 10 provides flexibility, allowing the chosen procedure to reflect the particular circumstances of the debtor and its management.

Article 109 also provides specific protections against creditor actions. As noted by the IMF Guide:

> [T]he existence of a stay in the context of a rehabilitation procedure is critical. An enterprise cannot be rehabilitated if it is being dismembered through the attachment of its assets by creditors.[166]

Article 110

International Perspectives—The commentary to Article 79 in Chapter 8 identifies the internationally recognized rationale for imposing a moratorium on creditor claims during insolvency proceedings.[167] In the specific context of a rehabilitation proceeding, this rationale has been described more particularly as follows:

> In reorganization proceedings, the application of a stay facilitates the continued operation of the business and allows the debtor a breathing space to organize its affairs, time for preparation and approval of a reorganization plan and for other steps such as shedding unprofitable activities and onerous contracts, where appropriate. As in liquidation, it also provides an opportunity to consider actions pending against the debtor.[168]

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[164] Footnote 5, p. 12.
[165] Footnote 7, p. 57.
[166] Footnote 7, p. 56.
[167] See commentary on Article 79 at p. 752.
[168] Footnote 5, p. 84.

The final part of Article 110 deals with the interaction between the moratorium and the claims of a secured creditor. This is an important interaction, as discussed in the Introduction of this international commentary.[169]

Article 113

International Perspectives—Several of the grounds for the release of an external manager from the performance of their duties apply aspects of the Integrity Principle. These aspects are referred to in the Introduction as "Integrity of Participants"[170] and the "Impartiality Principle."[171]

Articles 114 and 115

International Perspectives—The external manager is at the center of an External Management Procedure. In order to perform this important role, the external manager is given the rights, powers, and obligations in Articles 114 and 115.

The reporting requirements in Article 115—specifically the duty to provide creditors with information and to report on the progress of the plan's implementation—both reflect the Transparency Principle identified in the Introduction to this commentary.[172]

Furthermore, the obligation under Article 115 to develop and submit an external management plan to creditors, and to obtain approval at the creditors' meeting, underscores the importance of creditor involvement in the insolvency proceeding, consistent with international practice.

Article 118

International Perspectives—The consent required in Part 2 of Article 118 evidences the important role played by creditors, a concept further discussed in Chapter 2 of this international commentary.[173]

Article 119

International Perspectives[174]**—**The treatment of contracts in Article 119 reflects how important policy issues concerning valuable contracts and so-called "*ipso facto clauses*" are addressed in the Insolvency Law. From an international policy and practice perspective, the protection and maximization of value is an important principle,[175] which is relevant to valuable contracts in rehabilitation proceedings. The IMF Guide observes:

> The policy choices regarding the breadth of the power to interfere with contractual terms become particularly important in the context of

[169] Introduction Chapter, pp. 716 – 718.
[170] Introduction Chapter, p. 714.
[171] Introduction Chapter, p. 715.
[172] Introduction Chapter, p. 714.
[173] See international commentary in Chapter 2, Introduction (pp. 723 – 724) and Article 19 (p. 726).
[174] The international commentary to this article is largely similar to parts of the commentary set out in relation to Article 96, as the provisions are similar.
[175] See the discussion around the concept of "Value" in Chapter 8, pp. 748 – 751.

rehabilitation procedures. Broad powers to continue or terminate contracts will significantly enhance the possibility of rehabilitation.[176]

The UNCITRAL Guide further elaborates on these international policy considerations:

> In reorganization, where the objective of the proceedings is to enable the debtor to survive and continue its affairs to the extent possible, the continuation of contracts that are beneficial or essential to the debtor's business and contribute value to the estate may be crucial to the success of the proceedings. These may include contracts for the supply of essential goods and services or contracts concerning the use of property crucial to the continued operation of the business, including property owned by third parties.[177]

More specifically, the IMF Guide warns:

> Specifically, if a country does not provide for the nullification of contract termination clauses upon the commencement of rehabilitation, it will be more difficult for the enterprise to rehabilitate if the contracts in question are critical, such as lease agreements.[178]

This issue is further complicated where an "*ipso facto*" clause is present in the debtor's contracts. These are clauses which allow termination of the contract if a rehabilitation proceeding is commenced, even if no other default exists. The complication arises because insolvency laws must balance competing policy issues—for example, should the insolvency law respect the contract's original terms or should it protect the rehabilitation procedure by preventing the exercise of this clause? Policy arguments for taking this second approach include *"the need to keep the business together to maximize its sale value or to enhance its earnings potential; to capture the value of the contract for the benefit of all creditors rather than forfeiting it to the counterparty; and the desirability of locking all parties into the final disposal of the business"*[179]

In enacting an insolvency law, the parliament must make a policy choice regarding *"ipso facto"* clauses. In the case of Uzbekistan, the parliament made the policy choice that is reflected in Article 119, which provides that "*ipso facto"* clauses are "*invalid, except for the cases provided for by this law*." That is, subject to the stated exceptions, neither the debtor nor the counterparty may rely on such clauses to suspend or refuse to perform contracts or other transactions.

Parts 2, 3, and 4 of Article 119 address the situation where a contract is burdensome to the debtor. The UNCITRAL Guide observes:

> Similarly, the prospects of success [of a rehabilitation] may be enhanced by allowing the insolvency representative to reject burdensome contracts, such as those contracts where the cost of performance is higher than the benefits to be received or, in the case, for example, of an unexpired lease, the contract rate exceeds the market rate.[180]

International practice reflects a clear identification of the circumstances when the external manager may terminate such contracts. The Insolvency Law follows this

[176] Footnote 7, p. 72.
[177] Footnote 5, p. 121.
[178] Footnote 7, p. 71.
[179] Footnote 5, p. 123.
[180] Footnote 5, p 121.

practice by clearly identifying the circumstances for termination in Part 2 of Article 119.

Article 120 and 121

International Perspectives—These articles, in accordance with international practice, evidence the importance of creditor control over significant decisions in the External Management procedure. Further international commentary on the important role of creditors and creditor committees is set out in Chapter 2 of this commentary.[181]

Article 122

International Perspectives—This article governs the proposal, approval, and content of an external management plan. These are important, and identifying detailed provisions on these issues is consistent with international practice, particularly as to:timing

- voting requirements (including safeguards for dissenting creditors)
- the content of the plan

In line with international practice, this article emphasizes the importance of creditor control over significant decisions in the External Management procedure. Perhaps no decision is more important than whether to approve a plan. Further international commentary on the crucial role of creditors and creditor committees is set out in Chapter 2 of this international commentary.[182]

Article 123

International Perspectives—Article 123 establishes a specific timeline, adhering to international practice that procedures such as External Management should proceed with reasonable promptness.

Article 124

International Perspectives—While international practice prioritizes promptness, as set out under Article 123 above, it also recognizes the need for flexibility. This is consistent with Article 124, which permits extensions of the decreed timelines under the specified grounds.

Article 125

International Perspectives—The range of rehabilitation measures combines elements of "operational restructuring" (e.g., business adaptions and improvements) and "balance sheet restructuring" (e.g., recapitalization).

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[181] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).
[182] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).

The inclusion of the option to convert debt into shares, subject to the specified additional requirements, is consistent with international practice, which permits this option in rehabilitation. There is no single international standard for identifying the additional requirements. However, it is common practice, as in this case, to require a separate shareholder vote with a higher approval threshold.

The inclusion of the opportunity for a recapitalization, with a specification (in Article 130) of the additional requirements, is consistent with the international practice of permitting this option in the rehabilitation. There is no single international approach for identifying the additional requirements for a proposed recapitalization.

Similarly, the inclusion of the opportunity for a sale of the debtor's business or part of its property, with a specification (in Articles 126 and 127) of the additional requirements, is consistent with the international practice of permitting these options in rehabilitation.

Article 126 and 127

International Perspectives—These two articles govern the sale of the debtor's business and assets, whether in whole or in part. From an international perspective, the following observations are offered:

- These articles align with international practice by emphasizing the importance of creditor control over significant decisions in the rehabilitation process. Further discussion regarding the crucial role of creditors and creditor committees is set out in Chapter 2 of this international commentary.[183]
- Part 22 of Article 126 illustrates the conversion of a rehabilitation process to a liquidation process under specific circumstances, consistent with international practice. Encouraging the exploration of a settlement agreement, as set out in Chapter 12, promotes the international practice of achieving finality through consensual agreement.
- The independence requirement in Part 12 of Article 126 reflects the Impartiality Principle[184] and the Integrity Principle,[185] both set out in the Introduction of this international commentary.

Article 130

International Perspectives—International practice recognizes recapitalization of the debtor as a possible rehabilitation solution. While there is no universal approach to achieving this, international practice is to identify the conditions and circumstances under which recapitalization might be achieved and the circumstances in which it is binding on the debtor and existing shareholders, within the insolvency law. Article 130 sets out these specific conditions and circumstances under the Insolvency Law.

[183] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).
[184] Introduction Chapter, p. 715.
[185] Introduction Chapter, p. 714.

Article 131

International Perspectives—International practice recognizes capital restructuring as a key tool for rehabilitation. While there is no universal practice for achieving this, international practice is to identify the conditions and circumstances under which capital restructuring might be undertaken and when it is binding on the debtor, creditors, and existing shareholders, under the insolvency law. Article 130 sets out those conditions and circumstances for a capital restructuring under the Insolvency Law.

Article 132

International Perspectives—By requiring the External Manager to report and specifying the details to be included, this article reflects the internationally recognized Transparency Principle.[186]

The article also provides an opportunity to convert the rehabilitation procedure to a liquidation process where appropriate. International practice considers the option to apply to switch between a rehabilitation procedure and a liquidation process, when circumstances change, to be important.

Conversion of the external management process to liquidation is not the only choice available to creditors. Flexibility in determining the outcome of the external management process is consistent with international practice, which generally retains a degree of flexibility in transitioning from one process to another when circumstances change or where a transition would produce a better outcome. This flexibility is an important aspect of the Efficiency Principle.[187] Adherence to this principle requires early decision-making regarding and prompt implementation of those decisions. However, efficiency carries the risk that a decision may later prove incorrect as additional information becomes available or circumstances change (e.g., promised capital not materializing or major contracts being terminated). The safeguard against this inherent risk is the flexibility to apply to transition to another process, where appropriate.

Article 133

International Perspectives—The short time periods specified in Article 133 reflect the Efficiency Principle.

Articles 134, 135, 136, 137, 138, and 139

International Perspectives—These articles address the decision to be made by the Court following the creditors meeting referenced in Article 133, as well as the consequences of the Court's decision for the debtor's insolvency proceedings. These articles clearly set out the possible outcomes from the decision, therefore supporting the Predictability Principle.[188]

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[186] Introduction Chapter, p. 714.
[187] See Introduction Chapter, p. 715.
[188] See Introduction Chapter, p. 715.

CHAPTER 11

PROCEDURE FOR LIQUIDATION PROCEEDINGS

Introduction

International Perspectives—According to the IMF Guide, liquidation is recognized as the most common form of insolvency proceeding. It is available to address a debtor's insolvency "*once there is no economically reasonable possibility of rehabilitation.*"[189] The IMF describes the process as:

> […] a collective proceeding that seeks to achieve equitable treatment among creditors and to maximize the assets to be distributed to creditors. This is normally achieved by the imposition of a stay on the ability of creditors to enforce their rights against the debtor and the appointment of an independent liquidator whose primary duty is to maximize the value of the assets of the debtor prior to distribution to creditors.[190]

In international practice, liquidation serves three principal purposes[191]—first, maximizing the value of the debtor's assets; second, ensuring equitable treatment of similarly situated creditors; and third, providing a mechanism that facilitates investment decisions (by enabling creditors to enforce their rights and assess the outcome of that enforcement). In relation to this third purpose, the UNCITRAL Guide has observed:

> An orderly and relatively predictable mechanism for the enforcement of the collective rights of creditors can also provide creditors with an element of predictability at the time they make their lending decisions and can more generally promote the interest of all participants in the economy by facilitating the provision of credit and the development of financial markets.[192]

Some commentators provide another, economics-based, justification for liquidation:

> Broadly speaking, it can be argued that a commercial business that is unable to compete in a market economy should be removed from the marketplace.[193]

This argument also emphasizes the economic benefits of promptly recycling capital back into the economy.

Liquidation proceedings also provide an important and internationally recognized benefit for the proper functioning of a credit market by reducing the risk of economic and, potentially, social dislocation:

> [E]ffective insolvency proceedings will ensure that where debt enforcement mechanisms fail, creditors will have an avenue of final recourse that can operate as an effective incentive to a recalcitrant debtor to pay a particular creditor.[194]

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[189] Footnote 7, p. 18.
[190] Footnote 7, p. 13.
[191] Footnote 7, pp. 18-19.
[192] Footnote 5, p. 31.
[193] Footnote 5, p. 31.
[194] Footnote 5, p. 31.

Article-by-Article Commentary

Article 140

International Perspectives—Article 140 imposes a limit of 12 months on the duration of the liquidation proceedings. This timeline aligns with international practice, which suggests that *"where an enterprise is not viable, the main thrust of the law should be **swift** and **efficient** liquidation to maximize recoveries for the benefit of creditors."*[195]

Importantly, Article 140 allows the court to extend the 12-month period. This is also consistent with international practice, which recognizes that debtors are not the same. For example, a debtor with a large business or with assets that are the subject of litigation may require more time to fulfill the broader policy objectives of a liquidation, such as maximizing asset value to increase returns to creditors.[196]

The treatment of contracts in Parts 5, 6, and 7 of Article 140 reflects how the Insolvency Law addresses the important policy issue of valuable contracts and so-called "*ipso facto clauses.*" From an international perspective, a key principle is the protection and maximization of value. This principle is crucial to valuable contracts if the liquidation manager wishes to continue trading the debtor's business—either to sell it as a going concern, or to undertake an orderly wind-down. The issue of preserving valuable contracts is described as follows in the IMF Guide:

> In some cases, continuation of a contract will be more valuable to the estate than its termination. For example, the debtor may be the lessee under a lease agreement where the rental is below market value, and a substantial term still remains under the lease. In these cases, the liquidator may wish to continue the lease in order to sell the debtor's business as a going concern with the lease intact.[197]

This issue is further complicated where an "*ipso facto*" clause is present in the debtor's contracts. These are clauses which allow termination of the contract if a liquidation proceeding is commenced, even if there is no other default under the contract. The complication arises because insolvency laws must balance competing policy issues—for example, should the insolvency law respect the contract's original terms or should it protect the liquidation proceedings by preventing the exercise of such clauses?

Policy reasons for taking the second approach include "*the need to keep the business together to maximize its sale value or to enhance its earnings potential; to capture the value of the contract for the benefit of all creditors rather than forfeiting it to the counterparty; and the desirability of locking all parties into the final disposal of the business*."[198]

In enacting an insolvency law, the parliament must make a policy choice regarding *"ipso facto"* clauses. In Uzbekistan, the parliament made the policy choice that is reflected in Part 6 of Article 140, which provides that ipso facto clauses are "*invalid, except for the cases provided for by this law*." That is, subject to the stated

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[195] Footnote 2, p. 7 (Emphasis added).
[196] See the discussion around the concept of "Value" in Chapter 8, pp. 748–751.
[197] Footnote 7, pp. 38 - 39.
[198] Footnote 5, p. 123.

exceptions, counterparties may not rely on such clauses to terminate contracts entered into by the debtor.

From an international policy and practice perspective, the power granted to the Court in Part 7 of Article 140 reflects the important "*Equitable Treatment Principle*" discussed in the Introduction of the international commentary.[199]

Article 141

International Perspectives—The preservation and protection of the debtor's assets is a key internationally recognized objective of a liquidation proceeding. Consequently, from an international perspective, the following occurs on the opening of liquidation proceedings:

> Once liquidation proceedings have commenced, an insolvency law will normally provide that control over the assets of the debtor is transferred to an independent official and the assets are protected from the actions of both the debtor and its creditors.
>
> […]
>
> Irrespective of the legal tradition of the country, the insolvency law of any country will normally need to address two issues. First, what property of the debtor will become subject to the control of the liquidator and be available for liquidation, that is, what are the assets of the "estate" (as a functional rather than legal concept)? Second, what measures will be taken to protect these assets from actions taken by the debtor and its creditors?[200]

While Article 146 addresses the first of these two issues, Article 141 addresses the second and related matters.

International policy and practice provide context for the objectives of the various protections set out in Article 141. The IMF Guide observes:

> An essential objective of an effective insolvency system is the establishment of a protective mechanism to ensure that the value of the estate's assets is not diminished by the actions of various parties in interest. The parties from whom the estate needs the greatest protection are the debtor and its creditors. In the former case, the debtor must be displaced from any position of influence or control over the operation of the business since, upon the opening of the liquidation proceedings, beneficial ownership in the assets of the estate effectively shifts from the debtor to its creditors. Protective measures are therefore also needed to ensure that the debtor does not remove assets from the estate immediately before or after the liquidation proceedings commence.
>
> While creditors are the future beneficiaries of the estate, one of the fundamental principles of insolvency law is that measures are also needed to protect the creditors' collective and common interest from individual actions of one of them. The "stay" on creditor actions against the estate that is normally established once the liquidation proceedings commence enhances the collective interests of creditors by imposing limitations on the exercise of individual creditor interests. However, as will be discussed in subsequent

[199] Particularly the observations set out in the respective World Bank, United Nations and IMF Guides referenced in the Introduction Chapter.
[200] Footnote 7, pp. 25 – 26.

> sections, the nature and scope of this stay varies considerably among countries, this variation reflecting differing legal traditions and policy choices.[201]

The IMF Guide provides greater detail regarding the policy rationale for protecting the liquidation process from both actions of the debtor and of individual creditors.

As to protection against the actions of the debtor (and its management and shareholders), the IMF provides the following guidance:

> Once the liquidation proceedings are opened, the conservation of the estate requires the imposition of comprehensive measures to protect the estate from the debtor. For this reason, the debtor is normally divested of all rights to manage and operate the business and a liquidator is appointed to assume all responsibilities divested by the debtor, including the right to initiate and defend legal actions on behalf of the estate and the right to receive all payments directed to the debtor. Initially, the liquidator inventories the estate's assets and may freeze (or "seal") them. Upon the commencement of the proceedings, any actions that are taken by the debtor that are detrimental to the estate are normally void.[202]

With respect to protection against the actions of unsecured creditors, the IMF provides the following guidance:

> One of the principal purposes of an insolvency law is to provide for the imposition of a "stay" on the ability of creditors to enforce their rights through legal remedies during the period of the liquidation proceedings. Such a stay is necessary not only to provide the liquidator with adequate time to avoid making a forced "fire sale" that fails to maximize the value of the assets being liquidated, but also to provide the liquidator with an opportunity to sell the enterprise as a going concern. Notwithstanding the above, the scope of the rights that are affected varies considerably among countries. There is little debate regarding the need to impose a stay on the ability of unsecured creditors to attach assets as a means of enforcing their contractual claims and precluding all creditors from initiating legal proceedings to recover debts that accrued before the proceedings were initiated.[203]

Further explanation regarding the rationale for the "*stay*" is provided in the UNCITRAL Guide, stating:

> The imposition of a stay can ensure a fair and orderly administration of the liquidation proceedings, providing the insolvency representative with adequate time to avoid making forced sales that fail to maximize the value of the assets being liquidated and also an opportunity to see if the business can be sold as a going concern, where the collective value of assets may be greater than if the assets were to be sold piecemeal. A stay also allows the insolvency representative to take stock of the debtor's situation, including actions already pending, and provides time for all actions to be fully considered, increasing the possibility of achieving a result that is not prejudicial to the interests of the debtor and creditors.[204]

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[201] Footnote 7, p. 27; see also footnote 5, p. 83 for the expression of similar observations.
[202] Footnote 7, p. 28.
[203] Footnote 7, p. 29; see also footnote 5, p. 83.
[204] Footnote 5, pp. 83 – 84.

Part 2 of Article 141 addresses the position of secured debt. International commentary on this issue can be found in the Introduction Chapter.[205]

Article 144

International Perspectives—Article 144 sets out the rights and obligations of the liquidation manager. International policy and procedure regard the liquidation manager as central to the liquidation process, with powers and responsibilities to enable the liquidation proceedings to be carried out in accordance with the law, in pursuit of the following objectives of the law:

> An effective insolvency system must also provide for procedures that ensure the assets of the estate are sold and distributed in a timely, predictable, and equitable manner. Moreover, the liquidator should try to ensure that the sales price is maximized but that the cost of the sale and the distribution is limited […]
>
> In many respects, the first step in the liquidation procedure is the identification and collection of the estate's assets. Once the assets have been identified, the liquidator must identify and verify the liabilities of the estate. It then must sell the assets in accordance with a transparent procedure that will maximize the value of the assets being sold. Finally, it must distribute the proceeds in accordance with the priority rules set forth in the law.[206]

Part 1 of Article 144 transfers all management powers relating to the debtor's affairs from the debtor's existing management to the liquidation manager. International practice recognizes that this transfer of powers is subject to the liquidation manager's obligation to exercise the powers for the purpose of proper liquidation.

Article 145

International Perspectives—Article 145 provides for the involvement of a committee of creditors. International practice on creditor committees is discussed in Chapter 2 of this international commentary.[207]

Article 146

International Perspectives—This article addresses the identification of the assets of the liquidation estate. This is the first of the two key issues referenced in the IMF Guide, as quoted in the commentary regarding Article 141.

Consistent with international practice, property is broadly defined in this article, whose meaning is a matter of interpretation under Uzbek law.

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[205] Introduction Chapter, pp. 716 – 718.
[206] Footnote 7, p. 44.
[207] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).

Article 147

International Perspectives—Article 147 includes a provision for the involvement of a committee of creditors. International practice regarding creditor committees is discussed in Chapter 2 of this international commentary.[208]

Article 149

International Perspectives—Article 149 addresses the relationship between secured lenders and the liquidation process. There is a considerable body of policy and practice material regarding how this relationship is dealt with internationally. While approaches to the issue vary by country, several internationally recognized principles and considerations are relevant to balancing the interests of the secured lender and the debtor. This topic is discussed in further detail in Chapter 2.[209]

Article 150

International Perspectives—The distribution priorities established in Article 150 are consistent with international practice. The priorities reinforce the equitable treatment principle,[210] which is a cornerstone of insolvency laws around the world:

> All insolvency laws need to incorporate the principle that, for purposes of determining the priority of distribution of the proceeds of the estate, creditors should be ranked by categories. Such a ranking is not, in and of itself, inconsistent with the principle of equitable treatment. On the contrary, to the extent that different creditors have struck fundamentally different commercial bargains with the debtor, the ranking of creditors may actually be required as a matter of equity. Indeed, the priority system can provide an important instrument for facilitating the provision of credit. Most important, if a secured creditor is given the equivalent of a first priority at the time of distribution (or receives directly the proceeds of the sale of collateral), it facilitates the provision of secured credit.[211]

The priority granted to the identified expenses in Part 1 of Article 150 is also consistent with international practice. The IMF provides the following justification for having a priority for such expenses:

> Another acceptable basis for providing priority relates to the conduct of the insolvency proceedings themselves. Specifically, to create incentives for professionals, particularly the liquidator, to perform the necessary services to ensure the insolvency proceedings are orderly and effective, the insolvency law must normally provide that these professionals receive compensation from the proceeds of liquidation on a priority basis. Applying the same principle, to attract financing once the insolvency proceedings have commenced, priority will also need to be given to "post-petition" creditors. While the provision of this assurance is generally viewed as essential in the context of rehabilitation proceedings, it can also be important in the context

[208] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).
[209] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).
[210] See the discussion regarding this principle in the Introduction Chapter, p. 716.
[211] Footnote 7, pp. 46 - 47.

> of liquidation proceedings, particularly where the liquidator considers that the value of the estate can be maximized by the temporary continued operation of the estate (which may occur, for example, if it is attempting to sell the enterprise as a going concern).
>
> […]
>
> As noted above, priority for such expenses is justified by the fact that, absent such preferential treatment, the liquidation process would not be able to attract the resources, both human and financial, necessary to make it succeed.[212]

After providing the priority for the identified expenses, Article 150 sets out a sequence for the satisfaction of other claims. Internationally, there is no uniformity as to which parties should receive priority or the specific order of distribution, with two notable exceptions: employee claims and tax claims.[213] Employee claims are generally prioritized, though the nature and extent of the claims prioritized vary internationally. Tax claims are often, though not always, prioritized. Both employee claims and tax claims receive priority in Article 150 of the Insolvency Law.

Article 151

International Perspectives—A key function of the liquidation manager is the sale of the debtor's assets. Article 151 recognizes that this may involve a sale of a business under Article 126 or a sale of part of the debtor's property under Article 127. Undertaking a different process with different rules is consistent with international practice:

> The sale of assets as part of a going concern or as part of business units often produces greater value for creditors at distribution than does a sale of individual assets. Although an insolvency law may reflect this preference in the law itself, this may not be necessary since it is assumed that the liquidator will follow whichever course will maximize the proceeds for distribution.[214]

The detailed specification of rules for the sales process in Article 151 is also consistent with international practice. This includes provisions for the decision of a committee of creditors or at a creditors meeting. International practices regarding creditor approval are discussed in Chapter 2 of this international commentary.[215]

Article 152

International Perspectives—Article 152 provides for the decision of a committee of creditors or at a creditors meeting. International practices regarding such requirements are discussed in Chapter 2 of this international commentary.[216]

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[212]Footnote 7, p. 47-48.
[213] Footnote 7, p. 49.
[214] Footnote 7, p. 46
[215] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).
[216] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).

Article 153

International Perspectives—Article 153 provides for the decision of creditors at a creditors meeting. International practices regarding such requirements are discussed in Chapter 2 of this international commentary.[217]

Article 154

International Perspectives—A fundamental aspect of liquidation is the assessment and payment of creditor claims. Article 154 addresses important aspects such as the treatment of late claims, the handling of disputed claims, the status of outstanding claim balances once the debtor's assets are exhausted, and set-off. The following commentary from the IMF Guide is relevant:

> Some countries also permit other interested parties, including creditors, to challenge a claim. In that context, review of a final list of creditors' claims might be advisable, at one or more creditor assemblies following preparation of such a list by either the court or the liquidator. As a means of ensuring transparency, it is critical that adequate and timely notice be provided. If it is, liquidation can be expedited by establishing deadlines by when creditors must file their proof of claims. As a sanction for delay, it may be provided that latecomer creditors will either be excluded from distributions altogether or participate ratably only in the distribution of any assets remaining after the verification of claims.[218]

Set-off is dealt with in Article 154 and is relevant because, at the time insolvency proceedings commence, some creditors may also have debts owing to the debtor in addition to holding claims. Set-off is handled differently across countries, so there is no consistent international practice.

In some countries, the Equitable Treatment Principle[219] is understood to require that "*the liquidator should be able to receive the full amount owed by the creditor and the creditor's claim would be satisfied to the extent to which all other unsecured creditors get satisfied upon the liquidation of the estate*."[220] That is, the liquidator collects in full the debt owed by the creditor to the debtor while the creditor receives a dividend on its claim against the debtor, in the same manner as all other ordinary unsecured creditors.

Other countries balance the competing policy considerations differently, allowing mutual claims to be set off before any remaining claim is submitted for a dividend.[221] Countries taking this approach place greater importance on the following policy perspectives:

> The first is that of fairness: notwithstanding the importance of equality of treatment among creditors, it is considered unfair for a debtor to refuse to make payment to a creditor but, at the same time, to insist upon payment from

[217] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).
[218] Footnote 7, p. 45.
[219] Introduction Chapter, p. 716.
[220] Footnote 7, p. 42.
[221] Conversely, if the claim against the debtor is less than the claim by the debtor, then it is only the net balance that is payable to the debtor, when the country's insolvency laws permit set-off in insolvency.

> that creditor. In addition, since many counterparties are banks, the right of set-off is particularly beneficial to the banking system and, because of the important credit creation role of banks, is therefore considered to be of general benefit to the economy. By virtue of their core functions (lending and deposit taking), banks that have lent to an entity that has gone bankrupt will often find that they have financial obligations to the debtor in the form of deposits. A post-commencement right of set-off would allow the banks to offset their unpaid claims with the debtor's deposits even though these reciprocal claims are not yet due and payable.[222]

Other approaches are also taken—for example, some countries allow set-off only if the claims arise from the same transaction.[223] Thus, there is no single international practice that guides the application of set off.

In Uzbekistan, the application of set-off in a liquidation proceeding must be consistent with Article 154.

It is also important to note that there is no exclusion of foreign creditor claims. This is consistent with international practice, and important for any economy seeking both to attract foreign investment and to increase the availability and affordability of credit from foreign banks.

Article 155

International Perspectives—Transparency is one of the Integrity Principles fundamental to the effective operation of an insolvency law.[224] This principle is reflected in the requirement under Article 155 to submit monthly progress reports to the creditors committee (or to creditor meetings) or, upon request, to the court. It is also reflected in the detailed specification of the reports' contents. This article also illustrates the important role of the creditors committee, or creditors meetings, as discussed in the commentary in Chapter 2.[225]

Article 157

International Perspectives—Article 157 reflects a key goal of an insolvency law, namely the preservation of value:

> Where an enterprise is not viable, the main thrust of the law should be swift and efficient liquidation to maximize recoveries for the benefit of creditors… On the other hand, where an enterprise is viable, meaning that it can be rehabilitated, its assets are often more valuable if retained in a rehabilitated business than if sold in a liquidation. The rescue of a business preserves jobs, provides creditors with a greater return based on higher going concern values of the enterprise, potentially produces a return for owners, and obtains for the country the fruits of the rehabilitated enterprise. The rescue of a business should be promoted through formal and informal procedures.[226]

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[222] Footnote 7, p. 42.
[223] Footnote 7, p. 42.
[224] Introduction Chapter, p. 714.
[225] See international commentary in Chapter 2, Introduction (pp. 723–724) and Article 19 (p. 726).
[226] Footnote 2, pp. 7-8.

In countries where the choice between liquidation and rehabilitation is made at the commencement of the proceeding, the insolvency law needs to recognize that information regarding the debtor's rehabilitation prospects may be limited at that stage, or that the debtor's circumstances may change after the proceedings commence—for example, through the availability of fresh capital. As the IMF Guide observes, "*as a matter of practice…it is often impossible to tell, at the time of commencement, whether the debtor should be liquidated or rehabilitated*."[227]

Consequently:

> […] when a creditor initiates a liquidation proceeding against a debtor, the law will often establish some mechanism that enables the proceedings to be converted into a rehabilitation proceeding. Conversely, in circumstances where a debtor seeks protection by commencing a rehabilitation proceeding, the law will often provide a means by which the proceedings can be converted into liquidation proceedings if it is determined that a successful rehabilitation is not likely.[228]

Article 157 provides for this internationally supported opportunity to convert a liquidation into a rehabilitation-based process.

Article 158

International Perspectives—Article 158 reflects the importance of transparency, one of the Integrity Principles essential to the success of an insolvency law.[229]

Article 160

International Perspectives—The requirement to submit a report to the court reflects the importance of transparency, one of the Integrity Principles crucial to the success of an insolvency law.[230]

[227] Footnote 7, p. 16.
[228] Footnote 7, pp. 16–17.
[229] Introduction Chapter, p. 714.
[230] Introduction Chapter, p. 714.

CHAPTER 12

SETTLEMENT AGREEMENTS

Introduction

International Perspectives—There are two types of agreements used to settle claims between a debtor and its creditors (or a group of its creditors).

The first type is a private agreement reached outside of a formal insolvency proceeding. Under this type of private agreement, an individual creditor is bound by the settlement only if the creditor explicitly consents to it. This represents the principle that, outside of a formal statutory process, creditors cannot be compelled to compromise their claims without their consent.

The second type uses a formal statutory process that can bind dissenting creditors to the agreement if all legal requirements are met. Chapter 12 is an example of this second type of settlement agreement, which requires an insolvency case be opened before the settlement can take effect.

The ability to compromise claims despite individual creditors' protests is a common feature of insolvency laws internationally. It reflects the importance of the Value Principle and the preservation of value achieved through the successful rehabilitation of a financially distressed company. (The Introduction to Chapter 8 discusses Value and the importance of the preservation of value.[231])

A settlement agreement that affects the rights of dissenting creditors is regarded internationally as a form of rehabilitation. It has the advantage of being a less formal process that can be swiftly implemented. Speedy resolution can sometimes be necessary to rehabilitate a business successfully, and settlement agreements under Chapter 12 can serve this purpose:

> [R]eorganization can take one of several forms. These include informal (i.e. in the sense of being conducted out of court) voluntary restructuring negotiations, which require little or no court involvement and essentially depend upon the agreement of the parties involved.
>
> […] Reorganization may also include, however, proceedings commenced to give effect to a plan negotiated and agreed by affected creditors in voluntary restructuring negotiations that take place prior to commencement, where the insolvency law permits the court to expedite the conduct of those proceedings (referred to in this section as "expedited reorganization proceedings").[232]

Settlement Agreements under Chapter 12 are particularly useful where the majority of creditors are in favor of a compromise in order to rehabilitate a company, but one or more dissenting creditors remain. The UNCITRAL Guide provides the following helpful observations:

> 78. Voluntary restructuring negotiations can also be impeded by a minority of affected creditors who may refuse to agree to a solution that is in the best interests of most creditors in order to take advantage of their position to extract better terms for themselves at the expense of other parties (often

[231] See the discussion around the concept of "Value" in Chapter 8, pp. 748-751.
[232] Footnote 5, p. 238.

referred to as "holding out"). Where these hold-outs occur, the voluntary agreement can only be implemented if the contractual rights of these dissenting creditors can be modified without their consent. Under most existing legal systems, such a modification of contractual rights requires the commencement of full reorganization proceedings under the insolvency law, involving all creditors and requiring satisfaction of the provisions of the insolvency law governing the conduct of such proceedings. Typically, timing is critical in business restructuring and delay (usually inherent in full reorganization proceedings) can frequently be costly or even fatal to achieving an effective solution.

79. These difficulties, as well as some of the costs, delays and procedural and legal requirements often associated with full reorganization proceedings, can be avoided where voluntary restructuring negotiations and expedited reorganization proceedings are used. These proceedings can provide a cost efficient means of resolving a debtor's financial difficulties, although their effectiveness may depend upon certain preconditions, discussed in part one of the Legislative Guide (see chap. II, paras. 2-18), being met. These conditions may include that a significant amount of debt is owed to a limited number of main banks or financial institution creditors; that creditors accept that it may be preferable to negotiate an arrangement, as between the debtor and the financiers and also between the financiers themselves, to resolve the financial difficulties of the debtor; that there is a prospect of greater benefit for all parties through the negotiation process than by direct and immediate resort to the insolvency law (in part because the outcome is subject to the control of the negotiating parties and the process is less expensive and can be accomplished quickly without disrupting the debtor's business); and that the debtor does not need relief from trade debts or the benefits of formal insolvency, such as the automatic stay or the ability to reject burdensome debts.

80. Notwithstanding the dependence upon such conditions, voluntary restructuring negotiations and expedited reorganization proceedings can be valuable tools in the range of insolvency solutions available to a country's commercial and business sector. Encouraging the use of such solutions need not stem from the fact that a country's formal insolvency system is poor, inefficient or unreliable, but rather from the advantages such solutions can offer as an adjunct to purely formal insolvency proceedings, which deliver fairness and certainty. Moreover, such solutions work best where there is the possibility that if the negotiation process cannot be started or breaks down, there can be swift and effective resort to the insolvency law.[233]

Necessarily, there need to be rules and boundaries that regulate the circumstances under which a Settlement Agreement is binding when agreed by most but not all creditors. These rules safeguard the interests of the dissenting creditors and protect against abuse. Chapter 12 sets out the rules to regulate when a Settlement Agreement can become binding, and the consequences of a breach of the terms of the agreement by the debtor.

[233] Footnote 5, p. 239.

Article-by-Article Commentary

Article 161

International Perspectives—This article sets out the rules governing **t**he use of a Settlement Agreement under Chapter 12, as well as the consequences of such use. The detailed specification of these rules is consistent with international practice, promoting transparency and predictability in the outcomes of court applications, which are important principles supporting effective insolvency law. The availability of this form of rehabilitation process and the ability to resolve the proceedings quickly when the chapter's requirements are met promote speed and efficiency in delivering a rehabilitation outcome. This is consistent with the internationally recognized Efficiency Principle, which is also an important aspect of an effective insolvency law.[234]

The interests of creditors protected by a pledge of assets must be protected in an insolvency proceeding, since such protection is important to a country's economy, particularly with respect to the availability and pricing of credit. This protection is codified in Part 2 of Article 161. (The Introduction to this international commentary discusses the importance of protecting pledged assets.[235])

Article 164

International Perspectives—Part 3 of Article 164 reflects the Equitable Treatment principle discussed in the Introduction of this commentary.[236]

Similarly, Part 4 of Article 164 reflects the importance of preserving and protecting the rights of creditors protected by a pledge of assets, the rationale for which is also discussed in the Introduction.[237]

Article 165

International Perspectives—The documentation and information requirements of this article reflect the importance of the Transparency Principle, described in the Introduction of this commentary.[238]

Article 169

International Perspectives—The first of the two grounds for the invalidity of a settlement agreement reflects the importance of the Equitable Treatment Principle, described in the Introduction to this international commentary.[239]

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[234] See Introduction Chapter, p. 715.
[235] See Introduction Chapter, pp. 716 – 718.
[236] See Introduction Chapter, p. 716.
[237] See Introduction Chapter, pp. 716 – 718.
[238] See Introduction Chapter, p. 714.
[239] See Introduction Chapter, p. 716.

CHAPTER 13

SPECIAL CONSIDERATIONS WITH RESPECT TO INSOLVENCY OF CERTAIN CATEGORIES OF DEBTORS WHICH ARE LEGAL ENTITIES

Introduction

International Perspectives—It is a common international practice for certain categories of debtors to receive separate, highly specific insolvency-related treatment under a country's insolvency laws. The most common examples include trading banks and insurance companies.

Some countries incorporate this specific treatment in the insolvency law itself, while others address it through separate legislation, such as banking or insurance laws. By including provisions for various debtor types in Chapter 15, the Insolvency Law is aligned with international practice.

These provisions address the underlying policy considerations that, consistent with international practice, require specific attention for certain types of debtors due to their importance. For example:

- The failure of banks and insurance companies can have debilitating consequences for the economy and individual citizens. Furthermore, these industries are usually already subject to separate prudential regulation. Both factors require tailoring of general insolvency provisions to address these specific risks and circumstances.
- Similarly, the failure of construction developers and professional securities market participants can have devastating effects for citizens. These industries are likewise usually subject to separate prudential regulation. For these reasons, specifically tailored insolvency regulation is useful for these industries.
- With city-forming (or similar) enterprises, the consequences of failure can be severe for the relevant settlement or a large number of employees, particularly where the debtor has national defense or other strategic importance. These circumstances need to be addressed through specialized provisions in insolvency law.
- Given the importance of agricultural enterprises to the economy, and the sector's specific business challenges (for example, weather and delayed harvests), similar special treatment is necessary from a social policy perspective.

Social policy is served by including provisions introducing additional measures, considerations, and requirements for these industries.

There have been efforts in certain sectors—such as banks, insurance companies, and other systemically important financial institutions (known as "SIFIs")—to provide a uniform set of principles to govern financial distress.[240] However, the implementation of such frameworks is currently a work in progress internationally.

Generally, while international practice is to adopt separate and specific insolvency regulations for certain types of debtors, the specific terms of these

[240] For example, the work of the Financial Stability Board, accessible at www.fsb.org.

regulations differ from country to country. For this reason, beyond these general observations, there are limited international perspectives relevant to the specific content of the articles in this chapter.

Article-by-Article Commentary

Articles 172, 173, 174, 175, and 176— City Forming Enterprise and Equivalent Enterprise

International Perspectives—Article 172 identifies additional interested parties permitted to participate in the insolvency proceeding. This is consistent with international practice, in which the same policy considerations that necessitate specialized treatment for certain categories of debtors also support the inclusion of a wider group of participants. The presence of those responsible for the relevant policy areas ensures that these areas are represented in the proceedings.

The same rationale underpins the requirement in Article 173 that any external management plan be agreed with the relevant state body for the policy area concerned.

The 12-month extension available under Article 174 reflects the social policy importance of achieving a successful outcome.

Social policy considerations are also key to several specific provisions in Articles 175 and 176.

Articles 177, 178, and 179—Agricultural Enterprises

International Perspectives—It is common to have specific insolvency provisions for agricultural enterprises. This reflects both the strategic and numerical importance of agriculture in a country's economy and the unique business challenges farmers face due to climate, natural disasters, and complex market conditions.

International practice often encourages or requires pre-judicial rehabilitation, and in some countries, mandatory mediation before enforcement action is taken following signs of insolvency.

With regard to the special considerations set out in Article 179, the Introduction to Chapter 8 includes a discussion on value,[241] particularly international practice observations on preserving value through the sale of a business as a whole rather than a piecemeal sale of its assets.[242]

Articles 180 and 181—Banks

International Perspectives—Consistent with common international practice, Article 181 provides that separate legislation shall address the insolvency of banks.

[241] See the discussion around the concept of "Value" in Chapter 8, pp. 748–751.
[242] See the discussion around the concept of "Value" in Chapter 8, pp. 748–751.

Articles 182, 183, 184, and 185—Insurers

International Perspectives—These articles provide specific protections for policyholders and, in the context of liquidation, distinguish between policyholders whose insured event has already occurred and those for whom it has not yet happened. While these provisions are broadly consistent with those of other countries, there is no single universal practice addressing such matters.

Articles 186, 187, 188, and 189— Professional Participants in Securities Market

International Perspectives—Consistent with common international practice, these articles contemplate separate legislation to address the insolvency of professional participants in the securities market. There are also provisions tailored to the specific insolvency circumstances of a professional participant in the securities market.

Articles 190, 191, 192, and 193—Developer for Shared Construction

International Perspectives—These articles tailor the provisions of the Insolvency Law to address the insolvency of a developer engaged in shared construction.

CHAPTER 14

INSOLVENCY OF NATURAL PERSONS

Introduction

International Perspectives—Insolvency is not confined to trading entities. Natural persons can also find themselves unable to meet their financial obligations arising from purchases on credit (for example, through consumer credit or a housing loan) or liabilities incurred (for example, through damaging someone else's property). In such instances, a natural person may be in a position of insolvency in either (or both) of the ways identified in Article 5 of Chapter 1.

As World Bank insolvency experts observed,[243] there are significant challenges in dealing with consumer debt defaults in Uzbekistan, with debt defaults measured at "remarkable levels" as of 2023.

The available processes to address insolvency in legal entities cannot be applied without modification to natural persons. For example:

- A legal entity that is declared insolvent and liquidated is dissolved at the end of the process and ceases to exist. Conversely, a natural person must remain a functional member of society at the conclusion of the bankruptcy process and must therefore be financially reintegrated into society.
- In corporate liquidation, all assets of the legal entity will be sold and (after remuneration and expenses) the proceeds divided among its unpaid creditors in full. This cannot be the case with a natural person who still needs food and shelter, and is obliged to support dependent family members.
- Similarly, wages earned by the bankrupt natural person during bankruptcy cannot be applied in full to the claims of creditors, as that would leave the natural person debtor unable to purchase the food and shelter necessary for the survival of the debtor and dependent family members.
- Most jurisdictions recognize “exempt” property in personal bankruptcy. For example, a tradesman is often permitted to retain the tools of their trade. The debtor is allowed to keep those assets because they are needed for the debtor to continue working and generating income as a tradesman.

Thus, while personal and corporate insolvency share core principles, the law must adapt to address the unique circumstances of an insolvent natural person.

The following international commentary is more detailed than that in other Chapters because Chapter 14 is a new addition to Uzbekistan's insolvency law. To contextualize the international practice observations that follow, a general explanation of how Chapter 14 operates is helpful.

[243] F. Dancausa and M. Melecky. 2024. Private Sector Development Blog, World Bank. New Beginnings: Resolving Consumer Insolvencies in Central Asia.

In general terms,[244] Chapter 14 governs the insolvency of natural persons as follows:

- Insolvency proceedings may be commenced when the person has been unable to repay debts for more than three months. In addition to a Settlement Agreement under Chapter 12, two primary paths are available—a repayment plan or a bankruptcy process.
  - With regard to a repayment plan:
    - The debtor can propose a repayment plan for up to 3 years based on the debtor's disposable income.
    - If creditors reject the plan, the debtor can ask the court to approve it in identified circumstances.
    - If creditors and the court have rejected it, a bankruptcy process follows.
  - With regard to a bankruptcy process:
    - The process typically lasts six months, subject to a possible three-month extension.
    - Certain assets are exempted from the process. Non-exempted assets are sold to meet creditor claims.
    - A portion of the debtor's income during the period is available to meet creditor claims.
    - At the end of the six- or nine-month period, the debtor is discharged from remaining debts, though specified liabilities remain.

Through an agreed upon repayment plan or following a bankruptcy process, the natural person debtor emerges from the insolvency process after a relatively short period to resume being a productive member of society.

Insolvency of Natural Persons— Internationally Recognized Standards and Practices

International Perspectives - The internationally recognized standards and practices applicable to the financial distress of a legal entity (as described in the Introduction Chapter)[245] are largely applicable to natural persons as well. However, there are additional considerations because of the distinguishing features of insolvency for a natural person.

The following observation from the Australian context aligns with international practices:

> It is now generally accepted … that, when a person is unable to pay his or her debts and is in a hopeless financial position, the law should enable proceedings to be taken, either by the debtor or by a creditor, so that most kinds of the debtor's property can be taken and used to pay the creditors in proportion to the amounts owed to each of them. It is generally accepted too that, unless the debtor has been guilty of some dishonesty, extravagance or other improper conduct in financial matters, the law should enable the debtor

[244] This is a short and general summary, without precision, qualifications and detail—for a proper understanding of how Chapter 14 operates, a thorough reading of the commentary for Chapter 14 in the main part of this publication is necessary.

[245] See Introduction Chapter, pp. 714 – 718.

> to be freed from the burden of accumulated debts so that the debtor can make a fresh start. It is the modern law of [natural person] bankruptcy that gives effect to these generally accepted principles.[246]

The "fresh start" is achieved by discharging the debtor's remaining obligations. From an international perspective, this "fresh start" is a key principle of bankruptcy law for natural persons. It significantly influences the scope and content of the adaptations to legal entity insolvency that are made for natural person insolvency. As Mr. Dancausa and Mr. Melecky of the World Bank observe:

> A sound consumer insolvency framework—through debt relief or discharge, that is, cancelling the debt which good-faith consumers cannot reasonably repay—can help achieve several socially beneficial objectives, including: debtors and their families are relieved of overwhelming debts and their suffering is eased; economic vitality is restored by reintegrating debtors into active employment and responsible consumption; and creditors can optimize returns on their claims, either through a repayment plan or an agreed sale of the debtors' non-exempted property. Furthermore, predictable resolution of consumer insolvency improves access to credit because it allows financial institutions to price credit more accurately.[247]

The World Bank Personal Insolvency Report[248] provides guidance on which considerations are internationally recognized as relevant to personal insolvency. The Report provides three categories: benefits for creditors, benefits for debtors (and their families), and benefits for society.

As to the benefits for creditors, the World Bank Personal Insolvency Report identifies the following, among others:

- Preservation of value: Collective proceedings prevent wasted expense and loss of value to the debtor's assets by avoiding the sale of assets at "fire sale" prices, associated with multiple, uncoordinated enforcement actions by creditors against the debtor.[249] The report notes:

> Laboring under the dual burdens of information asymmetry and uncertainty, each creditor has an incentive to spend money on enforcement action, acting hastily to extract as much value as possible to protect its own interests. Individual, uncoordinated enforcement actions might represent a dead-weight loss if the assets produce no return beyond the enforcement costs. Even if significant asset value is available, such actions inevitably destroy value and increase losses for many if not most creditors that could be avoided by coordinated, collective action. An insolvency regime can offer creditors more convincing evidence of the folly of further collections, allowing creditors to avoid the expense of a multiplication of unsuccessful

[246] D. Rose, Lewis' Australian Bankruptcy Law (11th Ed, LBC Information Services, Sydney, 1999), p. 1.
[247] Footnote 243, p. 1.
[248] The World Bank, *Report on the Treatment of the Insolvency of Natural Persons,* authored by the Working Group on the treatment of the Insolvency of Natural Persons (Drafting committee comprising Jason J. Kilborn, Jose M. Garrido, Charles D. Booth, Johanna Niemi, and Iain D.C. Ramsay), 2012, accessed on 10/11/2025 at World Bank Document , and referenced in this Chapter as "the World Bank Personal Insolvency Report" or simply "the WB Report".
[249] Footnote 248, pp. 20-21.

> enforcement actions. For whatever assets are available, a collective insolvency regime concentrates the administrative expenses of enforcement into one proceeding in which an administrator maximizes the value of assets for all creditors.[250]

- Fairness: It prevents aggressive or sophisticated creditors from being prioritized over other creditors.[251]
- Asset transparency: Formal processes for personal bankruptcy incentivize debtors to disclose assets and, if necessary, provide tools for locating hidden property.[252]
- Future income potential: The system also promotes the creation of value from future income.[253] As the report explains:

> More important than locating assets, the benefit of an insolvency system lies in creating asset value by encouraging debtors to be productive, facilitating compromise payment of some of that future value to creditors, and monitoring compliance with that compromise over a period of years.[254]

- Efficiency through collective administration of the process: As the report states—

> An insolvency system might again eliminate wasteful duplication of monitoring costs by concentrating that task on one administrator with greater authority to scrutinize the debtor's activities than any individual creditor would. The insolvency representative might be empowered to take remedial action in case of default by the debtor, further alleviating the burden on creditors in pursuing maximum payment from the debtor.[255]

As to the benefits for debtors (and their families), the World Bank Personal Insolvency Report makes the point that "*providing relief to 'honest but unfortunate' debtors has long been a primary purpose of insolvency regimes for natural persons.*"[256] The WB Report offers the following historical perspective:

> Policymakers for millennia have developed legal frameworks akin to insolvency systems based on a variety of motivations related to relieving the suffering of debtors, including religious conviction, ideals of social solidarity, and basic sentiments of empathy and humanitarian concern for reducing long-term hardship.[257]

Turning from the historical to modern perspectives, there is a detailed international understanding of the "human element" to the advantages of a formal

[250] Footnote 248, pp. 2-22.
[251] Footnote 248, p. 20 – 21.
[252] Footnote 248, p. 22.
[253] Footnote 248, p. 22.
[254] Footnote 248, p. 22.
[255] Footnote 248, p. 24.
[256] Footnote 248, p. 25.
[257] Footnote 248, p. 25.

collective debt enforcement process that provides the debtor with a discharge and a fresh start. As the WB Report observes:

> 71. Unmanageable debt burdens cause a host of serious psychic, and ultimately physical, problems for debtors. Empirical studies have documented widespread and profound debtor suffering from the fear and anxiety produced by constant worry about inability to repay debts, as well as nagging feelings of failure.[258] Constant anxiety arising from inability to pay or from harassment by creditors can cause serious emotional and other problems for debtors, including depression and social withdrawal. Ironically, overwhelming debt burdens might cause debtors to be unable to concentrate on work and other responsibilities, thus preventing debtors from responsibly managing their own financial distress and plunging them into a descending spiral of failure. This situation of hopelessness can sap not only the debtor's motivation to engage in productive work, but also the debtor's essential joy or even desire for living.
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> 72. Left unaddressed, these psychic maladies can manifest themselves in serious physical problems. High stress levels and constant anxiety have been known to produce a wide range of physical ailments in debtors, ranging from sleep deprivation to inability to concentrate at work to more serious maladies, such as indigestion, heart and nerve problems, weakness and depression, and even thoughts of suicide. In one country, the system of insolvency for natural persons arose largely in response to a call by a doctor who observed a high incidence of physical ailments directly linked to the counterproductive operation of the debt collection system. In another country, media reports have drawn attention to the desperate plight of numerous debtors who have taken their own lives as a result of their hopeless insolvency.
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> 73. Systems for treating insolvency generally provide quite direct and often immediate relief from the stress, anxiety, and other negative emotional and physical reactions associated with inability to manage debts. Studies of debtors in insolvency systems have reported on the tremendous sense of relief that a simple respite—even a temporary one—can offer to debtors plagued by anxiety, guilt, shame, and helplessness. Many policymakers around the world have concluded that relieving the long-term pain and suffering of these debtors is a worthy goal in and of itself.[259]

Before proceeding to outline the general benefits to society of a personal insolvency process, the WB Report also addressed the benefits to the debtor's family:

> The spouses and especially children of distressed debtors suffer through no fault of their own and thus are especially deserving of compassion and relief. Children of hopelessly distressed debtors suffer seriously deleterious effects growing up in a household constantly hounded by creditor calls and financial strain, especially if the parent debtor withdraws from productive economic activity as a result of this constant pressure. These childhood effects can manifest themselves later in life in the form of poor socialization due to social exclusion, as well as unconstructive attitudes toward financial

[258] See, e.g., L. Choi. 2008. Federal Reserve Bank of San Francisco. Financial Stress and Its Physical Effects On Individuals and Communities. 5 Community Development Investment Review 120 (2009). AP-AOL/ABT SRBI. Credit Card / Debt Stress Study.

[259] Footnote 248, pp. 25-26.

responsibility, paying taxes, and productive engagement. Already moving toward the next, broader set of goals, ensuring that children grow up in environments of constructive engagement with obligations, work, and society rebounds to the benefit not only of the debtor and his children, but also to the benefit of society.[260]

As to the benefits for society, the World Bank Personal Insolvency Report identifies the following, among others:

- The availability and pricing of credit are important to a country's economic health. Banks and other institutional creditors must regularly value and audit their accounts receivable. Regulators and investors, in turn, rely on the accuracy of these valuations. Since the value of accounts receivable largely reflects the collectibility of the accounts, a loss of confidence in the collectibility of the accounts can have serious effects on the institution and trigger a cascading effect across the economy. According to the WB Report, these considerations relate to a personal insolvency system as follows:

> An insolvency system … can force creditors to acknowledge in a more timely fashion the reality that financial distress has destroyed or undermined the value of their accounts—and compel creditors to accept proper remedial action. An official declaration and confirmation of the account debtors' inability to pay prompts a more effective reevaluation of creditors' non-performing loan portfolios and more sound decisions with respect to investment in and regulation of such creditors. In addition, the confirmation of the debtor's inability to pay may have a tax effect in most systems, allowing creditors to claim tax deductions for their losses. Ultimately all of these effects produce a healthier climate for investing and managing the increasingly important role that such creditors play in the economy and in society.[261]

- A personal insolvency system prioritizes collective enforcement over individual creditor enforcement actions. This mitigates the disadvantages inherent in individual enforcement against hopelessly insolvent natural persons:

> When creditors are allowed to pursue enforcement actions against hopelessly insolvent debtors, at least three negative effects follow. First, the courts are clogged with ordinary enforcement actions that strain their often already overtaxed resources. … Liability in debt collections cases is often not disputed, yet because creditors sustain a sliver of hope of collecting on judgments against insolvent debtors, they engage the scarce resources of the general court system to obtain a default judgment that often proves to be practically uncollectible. Although creditors bear part of the costs of such proceedings, their filing fees do not fully cover the direct and indirect costs of burdening

[260] Footnote 248, p. 27.
[261] Footnote 248, p. 29.

> the judicial system with a formalistic and usually fruitless process. Second, if an official authority is charged with enforcing these fruitless judgments, its time and resources are expended in vain as well. These costs may also not be recovered fully by charging the pursuing creditor. Finally, if available assets are located, their value is often consumed in covering enforcement costs, leaving the creditor's position largely or entirely unchanged, as much of the real objective value of these assets is wasted in an inefficient piecemeal sale process. Indeed, many policymakers have identified a fourth negative effect in having deprived debtors of assets that likely had far greater personal value to them than to any third party, an effect further exacerbated by imposing significant replacement costs upon debtors.[262]

- Such a personal insolvency system benefits the debtor's health and well-being, which in turn produces corresponding benefits to society, such as reduced social costs of health care and lower crime.

- Debtors re-enter society as productive members of the community through the formal discharge from debts. The WB Report observes:

> Active and engaged debtors contribute to society in a variety of ways ... One obvious and often cited contribution involves tax revenue. Debtors pushed into the grey or underground economy might produce revenue, but taxing authorities are unable to benefit from that production. Insolvency regimes can provide incentives for debtors to apply their productive energies to the regular economy, maximizing their long-term future productive potential and making income tax and social security contributions from their income. The renewal of tax and benefit contributions from hopelessly indebted potential workers has been a prime consideration in the adoption of many current insolvency regimes.
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> …
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> Where regular jobs are available, some lawmakers have perceived a pernicious competition between creditors and society when creditors continue to pursue insolvent debtors for years on the slim and likely illusory hope of a small payment. For example, policymakers in one country acknowledged the undesirable but understandable tendency for debtors to go "on strike" and refuse to work to produce regular income if most or all of the fruits of their efforts will be siphoned off by creditors. This lost income harms not only the pursuing creditors, but society as a whole, and the losses to society far outstrip the losses to creditors, especially in light of the fact that continuing pressure from creditors often produces not payment from debtors, but their continued self-exclusion from the regular workforce. By keeping potentially productive debtors under threat of expropriation of any excess income, these creditors for the sake of a relatively small sum

[262] Footnote 248, p. 30.

> rob society of the potentially much larger long-term productive energies of these repressed debtors.[263]

- Finally, there is enhanced stability and predictability in the broader financial system and the economy. The WB Report observes:

> Insolvency systems function essentially as a safety valve, to release pressure that builds up in a financial system as a result of excessive leverage and pent up productivity. Indeed, many lawmakers have described the function of their new insolvency systems for natural persons in precisely these terms: to offer a safety valve in order to regulate financial and economic activity more smoothly. Supervisory regulation can maintain stable and predictable economic activity by preventing excessive incentive for activity, a build-up often called a "bubble," in one or more segments of the economy. Conversely, an insolvency system can help to maintain stability and predictability in the opposite situation, where activity is excessively burdened by widespread debt. Rather than relying on natural, long-term economic forces to correct the negative imbalance, an insolvency system can assure a more timely and less disruptive treatment of the casualties of economic activity, ensuring a smoother, more stable and predictable continuation of economic activity throughout the system.[264]

Article-by-Article Commentary

Articles 195 and 196

International Perspectives—The threshold requirements enabling a court to commence an insolvency proceeding for a natural person differ across the world. Nevertheless, these articles are aligned with international practice by clearly establishing specific criteria that adapt legal entity standards to the circumstances of a natural person. Specifically, the two additional requirements—the three-month minimum default period and the minimum monetary amount of the default—reflect that the debtor is a natural person.

Article 198

International Perspectives—This article illustrates the Transparency Principle outlined in the Introduction to this international commentary.[265]

[263] Footnote 248, pp. 37-38.
[264] Footnote 248, p. 40.
[265] See Introduction Chapter, p. 714.

Article 199

International Perspectives—The criteria and thresholds for creditors (including state tax services or other authorized bodies) to file an application against a natural person vary by country. Where the application is based on an alleged unpaid debt, some countries require a court judgment verifying the claim. In contrast, others require the further step of issuing a notice based on the judgment requiring payment within a prescribed time. These requirements ensure that the serious step of bankrupting a natural person is not taken where the debtor has not had the opportunity to pay the debt, or where the debt is the subject of a good faith dispute, or where the debt is exceeded by the value of a counterclaim of the debtor against the creditor.

Article 199 addresses these concerns by requiring either a court decision evidencing the claim or one of the other methods of verification listed in Part 2 of Article 199. The issue is further addressed in Article 202.

Article 201

International Perspectives—On the selection of the financial manager addressed in Part 2 of Article 20, refer to the international commentary set out in Chapter 2 in relation to Articles 22, 23, and 25.

Article 202

International Perspectives—Refer to the international commentary regarding creditor claims in Article 199.

Article 203

International Perspectives—Refer to the international commentary under the heading "Principle of Respect for Secured Debt/Pledges" in the Introduction.[266]

Article 204

International Perspectives—Refer to the international commentary regarding creditor meetings in Chapter 2.

Article 205

International Perspectives—Article 205 includes protections for the debtor and their assets following the identified court ruling. For international practices relating to these protections, refer to the international commentary on similar measures pertaining to a legal entity set out in Chapter 8.

[266] See Introduction Chapter, pp. 716 – 718.

Article 206

International Perspectives—Article 206 includes protections for the benefit of creditors, by protecting assets of the debtor. Certain asset transactions are prohibited, while others require the consent of the meeting of creditors, the financial manager, or the court. There is no universal international practice regarding the types of transactions that are restricted and the differing levels of restriction. The measures in Article 206 are, however, consistent with international practice in recognizing that:

- a natural person needs to access money and other assets for food and shelter, and
- the varying significance of different transactions necessitates different levels of approval.

Article 207

International Perspectives—The documentation and information requirements reflect the importance of the Transparency Principle, discussed in the Introduction to this international commentary.[267]

Article 208

International Perspectives—The documentation and information requirements in Part 2 of Article 208 reflect the importance of the Transparency Principle, discussed in the Introduction.[268]

Article 209

International Perspectives – The three-year limit for a debt restructuring plan to be fully implemented is consistent with international practices that generally require short time periods within which to fully implement a plan involving a natural person debtor.

With regard to Parts 4 and 8 of Article 209, refer to the international commentary under the heading "Principle of Respect for Secured Debt/Pledges" in the Introduction.[269]

The requirement in Part 6 that claims be satisfied proportionately (other than where the creditor consents to a lesser share) illustrates the Equitable Treatment Principle discussed in the Introduction Chapter.[270]

Article 210

International Perspectives—The documentation and information requirements of Article 210 illustrate the Transparency Principle discussed in the Introduction.[271]

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[267] See Introduction Chapter, p. 714.
[268] See Introduction Chapter, p. 714.
[269] See Introduction Chapter, pp. 716 – 718.
[270] See Introduction Chapter, p. 716.
[271] See Introduction Chapter, p. 714.

Articles 211 and 212

International Perspectives – Articles 211 and 212 outline the role of the court in approving, or refusing to approve, a debt restructuring plan.

These Articles specifically address the interrelationship between the decision of the creditors and the decision of the court regarding the plan's approval, specifically:

- the plan is not legally effective unless approved by the court; and
- the court may (if conditions are satisfied) approve the plan so that it becomes legally effective, even though the meeting of creditors did not approve the plan.

This position is largely consistent with international practice based on internationally recognized principles on personal insolvency.

The first policy consideration addresses "creditor passivity," explained in the WB Report in the following terms:

> In insolvency procedures for natural persons, in contrast, very little value is usually available, and the creditors normally play little or no role in the procedure. Even where creditors are invited to participate, their participation in natural personal insolvency cases cannot be taken for granted. Creditors will participate when they view it as being in their best interest to do so, and they will be reluctant to participate when they believe that their involvement is unlikely to increase their dividend. Thus, in the great bulk of natural person insolvency cases, where little or no dividend to creditors is expected, creditor passivity might well be the rational choice. In insolvency cases involving natural persons, creditors have most often regarded the likely dividends from such proceedings to be insufficient to warrant their participation. Even if a creditor's objection against the commencement of insolvency proceedings might be sustained, the result is most likely to be an uncollectible claim against a debtor who is practically insolvent even if not legally entitled to relief. Consequently, in the overwhelming majority of insolvency cases involving natural persons in the world today, active creditor participation is exceptional.[272]

Creditor passivity poses a problem for the creditor plan approval vote because a majority vote at the creditor meeting may represent only a small fraction of the total creditors and may not reflect the view of the broader creditor body.

Second, in some countries certain institutional creditors (such as revenue authorities, financial institutions, and debt collection agencies) vote against all plans—as a matter of general policy—regardless of the merits of the plan. As the WB Report observes, such an approach "*ignore[s] the worthiness of the debtor or the quality of the payment plan, and such policies ultimately undermine the achievement of the many benefits of the system for other creditors and society*".[273]

Furthermore, passive creditors often make decisions based on partial information because they lack the time or incentive to review relevant information.[274] Their

[272] Footnote 248, p. 70.
[273] Footnote 248, pp. 72-73.
[274] Footnote 248, p. 73.

position contrasts with the court, which has a duty to understand the material and listen to the debtor, as well as dissenting views.

Finally on the issue of creditor passivity, creditors who attend and vote on plan approval may have personal motives that do not reflect rational judgment.[275] Low attendance at the meeting due to creditor passivity allows creditors with personal, non-rational motives to dominate the vote, disadvantaging creditors generally.

Consequently, many systems internationally allow courts to approve the plan even where the majority of those present at a creditors meeting voted against it. There may be conditions regarding the contents of the plan in order for the court to approve it, where creditors have voted against the plan.

In the Insolvency Law, court approval of a plan over creditor rejection is only possible where the requirements of Part 5 of Article 211 are met. These requirements, in accordance with Chapter 14, balance the principles explained above as well as the importance of respect for creditor resolutions.

Article 211 also allows the court to grant a short extension for further discussion of the plan, where creditors have rejected it, or the preparation and consideration of an alternative plan.

Several of the grounds for refusing the plan illustrate the Integrity Principles discussed in the Introduction Chapter.[276]

Article 213

International Perspectives—The sixth sub-paragraph of Part 1 of Article 213 illustrates the Integrity Principle and the Transparency Principle discussed in the Introduction.[277] Part 2 of Article 213 also illustrates the Integrity Principle and the Transparency Principle discussed in the Introduction.[278]

Article 214

International Perspectives—With regard to the interaction between the decision of creditors and the decision of the court, the same international principles discussed above in relation to Article 211 are pertinent. Likewise, a balance needs to be struck in addressing these conflicting principles, in this case, on the terms set out in Part 10 of Article 214, where creditors may oppose an extension of time.

Articles 216 and 217

International Perspectives—Both Articles 216 and 217 provide the opportunity to convert a debt restructuring plan into a bankruptcy under the identified circumstances, consistent with international practice.

The first two sub-paragraphs of Part 1 of Article 217 illustrate the importance of both the Integrity Principle and the Transparency Principle discussed in the Introduction.[279]

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[275] Footnote 248, p. 73.
[276] See Introduction Chapter, p. 714.
[277] See Introduction Chapter, p. 714.
[278] See Introduction Chapter, p. 714.
[279] See Introduction Chapter, p. 714.

Article 218

International Perspectives—The duration of the period of bankruptcy is a policy choice for each country. Internationally, there is no universal standard; it can vary from a few months (for consumer debt) to three or more years. (For example, in Germany, prior to 2020, the period was up to 6 years.) Under the Insolvency Law, the period is six months, with a possible extension of up to three additional months.

Article 219

International Perspectives—International practice views bankruptcy as a means for collective execution against the debtor's property to satisfy, collectively, the claims of the debtor's creditors. This requires identifying the debtor's property available to meet creditor claims, as addressed in Parts 1 to 4 of Article 219.

International practice as to the collective execution process requires an independent professional—here a financial manager—to take control of the assets of the bankruptcy estate. This is addressed in Parts 5 to 8 of Article 219.

It is also international practice to protect the assets of the bankruptcy estate pending the sale and realization of the assets. Protections of this nature are addressed in Part 9 and the succeeding parts of Article 219.

Article 220

International Perspectives—Several parts of Article 220 deal with assets involving common ownership with a spouse or former spouse. This issue commonly arises in international practice, and it has been observed that joint ownership "*brings about complicated legal issues for individual debtors,*" and such complications "*frequently arise in regard to assessing the interests of debtors and their spouses.*"[280] In addition, the WB Report observes:

> Complicated issues in regard to the family home can also arise with respect to the contributions by the non-insolvent spouse that were used to purchase the home or to pay the mortgage.

Based on international experience, these issues are resolved in light of the relevant insolvency law and, perhaps more often, in relation to how the debtor's interest is treated under other laws.

Article 221

International perspectives—Part 1 of Article 221 is consistent with international practice, by prioritizing payment to current creditors (as defined in the Insolvency Law) before pre-petition creditors. Otherwise, no credit would be extended in relation to a natural person who is the subject of a bankruptcy proceeding. For instance, if the remuneration of the financial manager is not granted first priority, it would be difficult to find someone to undertake the role. Granting priority status ensures that the bankruptcy process works as intended.

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[280] Footnote 248, p. 85.

As to the treatment of pledged assets in Parts 6, 7, and 8 of Article 221, refer to the international commentary under the heading "Principle of Respect for Secured Debt/Pledges" in the Introduction.[281]

Part 9 of Article 221 (as well as several Parts in Article 222) provides for the discharge of creditor claims at the end of the bankruptcy process, except for exempt claims identified in the Insolvency Law. For further detail, refer to the international commentary on discharge set out in Article 222 commentary immediately below.

Article 222

International Perspectives—Part 1 of Article 222 illustrates the Transparency Principle discussed in the Introduction.[282]

Part 3 of Article 222 provides a discharge of creditor claims at the end of the bankruptcy process, except for exempt claims identified elsewhere in the Insolvency Law (including in multiple Parts of Article 222).

The WB Report makes the following observations regarding discharge in the international context:

> For [the goal of] rehabilitation it is important that as many of the debtor's debts as possible be included in the scope of the discharge. The more debts that are excluded from the effect of the discharge, the less effective the insolvency regime can be in achieving the debtor's rehabilitation and the many related goals … The old insolvency law principle of equality of treatment of creditors is another important principle in personal insolvency law, in relation to the debts to be included in the discharge. Most insolvency laws for natural persons continue to adhere to the principle of equality of creditors so that very few claims are excepted from the discharge. But there are some exceptions to this general trend, even in countries that are known as "debtor-friendly." Some debts that are not created in the market context are in many systems excluded from the discharge, in particular, child support and sometimes spousal support. Similarly, taxes and fines are often excluded, though the recent tendency in insolvency law has been to eliminate the special treatment for debts owed to public bodies.[283]

A number of the exemptions from discharge set out in Article 222 reflect the Integrity Principle discussed in the Introduction Chapter.[284]

Article 223

International Perspectives—This article illustrates the importance of both the Transparency Principle and the Integrity Principle discussed in the Introduction Chapter.[285]

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[281] See Introduction Chapter, pp. 716 – 718.
[282] See Introduction Chapter, p. 714.
[283] Footnote 248, pp. 120-121.
[284] See Introduction Chapter, p. 714.
[285] See Introduction Chapter, p. 714.

Article 225

International perspectives—Consistent with international practice, the option of a settlement agreement between the debtor and creditors remains available throughout the bankruptcy process.

CHAPTER 15

INSOLVENCY OF INDIVIDUAL ENTREPRENEURS

Introduction—Importance of Entrepreneurs

International Perspectives—Entrepreneurs are referred to in the publications quoted below variously as "entrepreneurs", "MSMEs" (meaning Micro, Small or Medium Enterprises), or "MSEs" (meaning Micro or Small Enterprises). Generally, these terms denote a small or micro (i.e., very small) business operated by a person (or family). This international commentary will use the term "entrepreneur," though other terminology is often used in the quoted passages.

Entrepreneurs are critical to a healthy economy. As the World Bank MSE Guide observes:

> Micro, small, and medium enterprises (MSMEs) form the foundation of the global economy. Although the diversity and sheer number of MSMEs make it difficult to properly quantify them and measure their impact, they represent the majority of businesses and are key drivers of employment, economic growth, and entrepreneurship in virtually all economies.[286]

The World Bank illustrates this importance with the following global statistics:

> One of the most notable benefits of MSMEs is their contribution to employment. An estimated 60 percent of private sector employment, or one-third of the world's labor force, is attributable to MSMEs. The value generated by MSMEs is also significant: they represent 52 percent of private sector value added ("value added" is the value of an economy's output less intermediate consumption, or GDP less taxes but including subsidies).[287]

Introduction—Challenges Facing Entrepreneurs

International Perspectives—To understand why specific attention is given to entrepreneur insolvency in many countries' insolvency laws, it is important to understand the nature of the challenges entrepreneurs face.

Entrepreneurs face significant challenges in conducting their business, which are often different and more difficult than those confronting larger businesses. They "*often have less capital, a lower market share in their respective markets, a smaller workforce, and fewer resources overall as compared to large enterprises. These factors result in MSMEs operating differently from larger businesses, and accordingly the challenges and obstacles they face are unique.*"[288]

The World Bank MSE Guide outlines some of the further challenges facing entrepreneurs:

> [MSMEs'] small size and scope of operations contribute to their high failure rates. As Davis et al.[289] suggest, MSMEs often have undiversified

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[286] Footnote 9, p. 1.
[287] Footnote 9, p. 4.
[288] Footnote 9, p. 5.
[289]Davis, Ronald, Stephan Madaus, Alberto Mazzoni, Irit Mevorach, Riz Mokal, Barbara Romaine, Janis Sarra, and Ignacio Tirado. 2016. "The Modular Approach to MSME Insolvency." Draft Working Paper. File on record with the World Bank Group and authors.

> suppliers and customers, making the loss of a significant counterparty or a late payment more unsettling. In addition, MSMEs frequently lack the resources to afford assistance from legal and financial experts. Given that MSMEs are typically unable to access finance at levels similar to larger enterprises, MSMEs often have difficulty weathering macroeconomic and financial shocks … Accessing credit is necessary for many businesses to fund growth or to sustain operations during periods of cash flow misalignment. Underserved or unserved financing needs may push an enterprise into insolvency. The IFC estimates that half to two-thirds of formal MSMEs lack proper access to finance.[290]

Internationally, entrepreneurs are common users of a country's insolvency system. This is due to both their large proportion in a country's commercial activity and their unique vulnerabilities outlined above.

Consequently, over the last 20 years, international bodies such as the World Bank and UNCITRAL have dedicated considerable resources to developing guidance on tailoring insolvency systems to address challenges that are particularly pertinent to entrepreneurs. Over the same period, countries have increasingly adopted a separate regime within their insolvency law to specifically address entrepreneur insolvency.

Specific guidance regarding entrepreneur insolvency is reflected in a list of key objectives published by UNCITRAL:

> **A. Key objectives of a simplified insolvency regime**
>
> 271. States should provide for a simplified insolvency regime and for that purpose consider the following key objectives:
>
> (a) Putting in place expeditious, simple, flexible and low-cost insolvency proceedings (henceforth referred to as "simplified insolvency proceedings");
>
> (b) Making simplified insolvency proceedings available and easily accessible to micro- and small enterprises (MSEs);
>
> (c) Promoting the MSE debtor's fresh start by enabling expedient liquidation of non-viable MSEs and reorganization of viable MSEs through simplified insolvency proceedings;
>
> (d) Ensuring protection of persons affected by simplified insolvency proceedings, including creditors, employees and other stakeholders (henceforth referred to as "parties in interest") throughout simplified insolvency proceedings;
>
> (e) Providing effective measures to facilitate participation by creditors and other parties in interest in simplified insolvency proceedings, and to address creditor disengagement;
>
> (f) Implementing an effective sanctions regime to prevent abuse or improper use of the simplified insolvency regime and to impose appropriate penalties for misconduct;
>
> (g) Addressing concerns over stigmatization because of insolvency; and
>
> (h) Where reorganization is feasible, preserving employment and investment.

The above principles focus on providing:

> (a) a fresh start, with the opportunity for rehabilitation (in a simple, expeditious, and inexpensive way) where that is possible, and

[290] Footnote 9, pp. 5-6.

(b) an alternative path of liquidation that is similarly simple, expeditious, and inexpensive.

International experience suggests that most financially distressed entrepreneurs ultimately undergo liquidation.

The foregoing provides relevant context, identifying the general objectives recognized internationally as underpinning a separate insolvency regime specifically applicable to entrepreneurs. Chapter 15 of the Uzbekistan Insolvency Law records the specific terms applicable to Individual Entrepreneurs in Uzbekistan.

As the commentary below shows, there are three rehabilitation options available to a financially distressed entrepreneur as alternatives to liquidation. They are Pre-Judicial Rehabilitation (see Article 227 and its reference to Chapter 4), reaching a Settlement Agreement of the type set out in Chapter 12 (see Article 232, Part 2), and entering into a Debt Repayment Plan (see Article 229).

Article-by-Article Commentary

Article 227

International perspectives—The inclusion of Chapter 4 in the list of applicable chapters is consistent with international practice, and the specific articles within Chapter 4 relating to Pre-Judicial Rehabilitation deserve particular attention. While some of the measures listed in Article 34 are unlikely to be within the financial reach of a financially distressed entrepreneur, other measures are very pertinent, such as:

- "*deferral of payment of taxes and fees and repayment of loans for the period of pre-judicial rehabilitation*"
- "*agreement between the debtor and creditors aimed at reaching a consent between them on the deferment and (or) instalment of payments due to creditors or a discount on debts in order to continue the activities of the debtor*"

International practice suggests that many financially distressed entrepreneurs encounter financial distress in dealings with a single creditor—most often the entrepreneur's bank, landlord, or the tax collection authority. If an agreement can be reached with that single creditor (e.g., deferral, payment by instalments, and/or discount on debts), then the commencement of an insolvency proceeding may be avoided. Such an agreement may well be attractive to the bank, landlord, or tax authority, since the alternative of a formal insolvency proceeding may produce a significantly worse financial outcome for that creditor.

Article 229

International Perspectives—This article provides one of the three means for rehabilitation of a financially distressed entrepreneur. Its terms are consistent with objective (c) from the UNCITRAL list of objectives reproduced in the Introduction to this chapter.

It is also consistent with objectives (a) and (b) from the UNCITRAL list of objectives in providing the simple process of:

(a) accompanying the debtor's application with the debt repayment plan; and

(b) allowing the court to approve the plan without a creditors meeting (assuming there are no creditor objections).

This process also addresses the delays often associated with creditor disengagement (objective (e) on the UNCITRAL list of objectives) by removing the requirement for a meeting while allowing creditors to object to the plan within 2 months. The Court has the power to act on the objections in the manner permitted (reflecting objective (d) of the UNCITRAL objectives) without adding undue delay and excessive cost to the proceeding.

Article 230

International Perspectives—The exceptions to the property that would otherwise be sold to discharge debts, provided in this article, are consistent with international practice.

Without limiting the range of assets that may be relevant here, an example of an exclusion worthy of consideration is the tools of trade of a debtor who is a carpenter. These tools are essential to the ability of the carpenter to continue earning a living. Also, as second-hand equipment, their sale would perhaps be unlikely to *"affect substantially satisfaction of the claims."*[291]

Article 232

International Perspectives—This article provides one of the three means for rehabilitation of a financially distressed entrepreneur. Its terms are consistent with objective (c) from the UNCITRAL list of objectives reproduced above in the Introduction to this chapter.

The period of one month allowed for a settlement agreement to be concluded is consistent with objective (a) from the UNCITRAL list of objectives reproduced above in the Introduction to this chapter, as the short period promotes an expeditious resolution.

Article 233

International Perspectives—The processes set out in this article are pursued expeditiously, including the one-month period for creditors to present claims. This is again consistent with the goal of an expeditious resolution in objective (a) from the UNCITRAL list of objectives reproduced above in the Introduction to this chapter.

Article 237

International Perspectives—The entrepreneur is released once the liquidation process is complete. There is no extended period of "bankruptcy." The entrepreneur is thus able to pursue other entrepreneurial activities within a relatively short period after the commencement of the proceedings. This is consistent with the UNCITRAL list of objectives reproduced above in the Introduction to this chapter, including the availability of a fresh start.

[291] Article 230, Part 2.

Chapter 16

Simplified Insolvency Procedures

No international commentary is offered on this short chapter.

CHAPTER 17

FINAL PROVISIONS

Article-by-Article Commentary

Article 244

International Perspectives—It is international practice to provide dispute resolution processes for resolving disputes arising in an insolvency process. The question arises as to which parties are entitled to appear and participate in the dispute resolution process. This is a matter to be resolved under Uzbek law.

In terms of international practice, the UNCITRAL Guide offers the following observations:

> The insolvency representative, the debtor, a creditor, a creditor committee or another party in interest may wish to request relief under the insolvency law or may oppose requests of others for such relief. Each of those parties should have a right to be heard when their rights, interests in assets or duties under the insolvency law are affected.[292]
>
> […]
>
> Where acts of the insolvency representative are not subject to the prior approval of creditors, it may be appropriate to permit creditors to request the court to review the insolvency representative's decision. Such a review procedure may be appropriate for other parties in interest when acts of the insolvency representative affect them.[293]

[292] Footnote 5, p. 205.
[293] Footnote 5, p. 206.

ABOUT THE AUTHORS

Otakhonov Foziljon Khaydarovich

Deputy Director of the Republican Public Association “Institute of Democracy and Human Rights,” Chief Researcher of the Research Center of the Tashkent State University of Law, Doctor of Law, Professor.

F.Kh. Otakhonov has published more than 700 academic, educational, and practical works and articles in Uzbekistan and about ten foreign countries. In particular, he has written more than twenty monographs, textbooks, and popular academic articles in order to widely promote legislative documents on bankruptcy.

He actively participated in the process of adopting the Law of the Republic of Uzbekistan “On Bankruptcy” in 1998 and 2003, and most of his proposals were taken into account.

During his tenure at the Tashkent City Economic Court, he reviewed more than fifty bankruptcy cases and participated in the generalization of judicial practice and the preparation of decisions of the Plenum of the Supreme Economic Court.

He participated in the preparation of commentaries to the Civil Code of the Republic of Uzbekistan, the Economic Procedural Code, the Laws “On Bankruptcy,” “On Guarantees of Equal Rights and Opportunities for Women and Men,” and “On Public Control.”

Kalandarova Malikakhon Pirnazarovna

Deputy Chairman of the Supreme Court of the Republic of Uzbekistan, Chairman of the Association of Women Judges of Uzbekistan, Candidate of Legal Sciences, Associate Professor.

More than 100 academic, educational, and practical works and articles by M.P. Kalandarova have been published in Uzbekistan and in about ten foreign countries. In particular, she has written more than thirty monographs, textbooks, and popular academic articles to widely promote public procurement, bankruptcy, and procedural legislation.

During her time at the Economic Court, she reviewed more than a hundred bankruptcy cases and participated in the generalization of judicial practice and the preparation of the Supreme Court Plenum's decision on insolvency.

She actively participated in the preparation of comments to the Economic Procedural Code of the Republic of Uzbekistan.

Khudaybergenov Bekhzod Bakhtiyorovich

Chief Advisor of the Department for the Organization of the Activities of Court Administrators of the Insolvency Agency under the Ministry of Justice of the Republic of Uzbekistan, Doctor of Laws (DSc), Associate Professor.

More than 100 academic, educational, and practical works and articles by B.B. Khudaybergenov have been published in Uzbekistan and abroad. He has written more than 70 works on legal regulation, a textbook entitled “Bankruptcy Law,” several monographs, and numerous academic articles on the topic of insolvency.

From 2013 to 2024, he taught “Bankruptcy Law” as a module leader for undergraduate and graduate students at Tashkent State Law University, and from 2022 to the present, he has been teaching master's students in “Business Reorganization and Bankruptcy” at the University of World Economy and Diplomacy.

He actively participated in the process of adopting the Law of the Republic of Uzbekistan “On Insolvency,” and his academic proposals related to restoring debtors' solvency were included in the legislation.

In 2019, he was awarded the degree of Doctor of Philosophy (PhD) in Legal Sciences on the topic “Improving Judicial Sanation as a Bankruptcy Procedure,” and in 2024, he was awarded the degree of Doctor of Legal Sciences (DSc) on the topic “Legal Regulation of Insolvency: Sanation and Bankruptcy.”

Saydakhmedov Umid Murodovich

Judge of the Tashkent Regional Economic Court, Doctor of Philosophy (PhD) in Legal Sciences, Professor.

More than 100 academic, educational, and practical works and articles by U.M. Saidakhmedov have been published in Uzbekistan and in several foreign countries. In particular, he has written more than twenty monographs, textbooks, and popular academic articles in order to widely promote legislative documents on bankruptcy.

He has 10 years of judicial practice experience on the consideration of insolvency cases in economic courts.

He actively participated in the process of adopting the Law of the Republic of Uzbekistan “On Insolvency,” most of his proposals were taken into account. He participated in the generalization of judicial practice and the preparation of the decision of the Plenum of the Supreme Court.

He also participated in the preparation of comments to the Economic Procedural Code of the Republic of Uzbekistan.

Maksudov Alisher Maksud o‘g‘li

Judge of the Tashkent Interdistrict Economic Court, Doctor of Philosophy (PhD) in Legal Sciences.

He was awarded the degree of Doctor of Philosophy (PhD) in Legal Sciences on the topic “Improvement of the Civil Legal Basis of Bankruptcy of an Individual Entrepreneur.”

A. Maksudov has published more than 100 academic, educational, and practical works and articles in Uzbekistan and about ten foreign countries. In particular, he wrote monographs, textbooks, and popular academic articles in order to widely promote legislative documents on insolvency (bankruptcy).

He has 20 years of experience in handling insolvency (bankruptcy) cases in economic (commercial) courts. During his career as a judge, he has heard and resolved more than 300 insolvency cases.

He actively participated in the process of adopting amendments and additions to the Law of the Republic of Uzbekistan “On Bankruptcy,” the Law of the Republic of Uzbekistan “On Insolvency,” as well as many other government decisions in the field, as part of the working group in the preparation of decisions of the Plenum of the Supreme Court, and most of his proposals were taken into account.

Saidov Maqsudbek Norboevich

Judge of the Tashkent Regional Administrative Court, Associate Professor at the Institute for Retraining and Advanced Training of Legal Personnel, etc., Doctor of Philosophy (PhD) in Legal Sciences.

M. Saidov has more than 15 years of experience in judicial practice in insolvency cases. During his work in economic (commercial) courts, he has heard and resolved more than 300 insolvency cases. He has published more than 100 academic, educational, and practical works and articles on improving legislative documents.

He participated in the preparation of comments to the Economic Procedural Code of the Republic of Uzbekistan.

Masadikov Sherzodbek Makhmudovich

Head of the Department at the University of World Economy and Diplomacy, Candidate of Legal Sciences, Associate Professor.

Sh.M. Masadikov has published more than 50 academic works on alternative dispute resolution, mediation, and arbitration, and is the author of a commentary on the Law of the Republic of Uzbekistan "On Mediation."

He participated in the development of draft laws of the Republic of Uzbekistan "On Mediation" and "On International Commercial Arbitration," as well as draft laws and by-laws related to the field.

Berdiyarov Rakhmatjon Tojinorovich

Associate Professor of the Department of Economic and Legal Sciences of the Academy of Justice of the Republic of Uzbekistan, Doctor of Philosophy in Legal Sciences (PhD).

R.T. Berdiyarov has more than 10 years of experience in judicial practice in economic courts in insolvency cases. He has also conducted research on improving legislative documents, and has published more than 70 academic, educational, and practical works and articles.

Nazarov Sherbek Ulug'bek o'g'li

Head of the Department of Legal Studies and Analysis of Legislation in the Field of Administration of Justice at the Supreme Court of the Republic of Uzbekistan; Doctor of Philosophy (PhD) in Legal Sciences.

Sh.U. Nazarov has published more than 50 academic, educational, and practical works and articles in national and international publications on ensuring the rule of law, increasing the efficiency of justice, improving business legislation, including the protection of property rights, and insolvency.

He is the author (co-author) of such practical manuals as academic and practical commentary on the Economic Procedural Code of the Republic of Uzbekistan (I-II official edition), "Legal Basis of Protection of Business Entities in the Republic of Uzbekistan" (monograph), "Trial of Cases Related to Foreign Investors and Enterprises with Foreign Investments in Courts," "Activity and Development Prospects of Arbitration Courts," "Samples of Judicial Documents in Economic Cases," and "Court Practice in Disputes Arising from Legal Relations Related to Housing."

He participated in the development of the drafts of the Economic Procedural Code of the Republic of Uzbekistan, the Code on Administrative Judicial Procedure, the new edition of the Civil Procedural Code, the Law "On Insolvency," as well as more than 500 draft laws and by-laws in the field.

John Martin

A lawyer at K&L Gates in Sydney, Australia, he has nearly 40 years of experience in insolvency law, with a specialization in international insolvency. This specialization has given him exposure to and experience with a wide range of international insolvency systems and key international texts issued by UNCITRAL, the World Bank, the IMF, and ADB. John has worked on insolvency law reform projects in a number of countries. In 2017, he presented a paper on International Insolvency at the 50th UNCITRAL Congress (with Professor Ross Mason). He has been a member of the International Insolvency Institute for over 15 years, serving as its President from 2021 to 2023.

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