

# LAW OF THE REPUBLIC OF ARMENIA ON BANCKRUPTCY

Adopted on 25 December 2006

## CHAPTER 1

### GENERAL PROVISIONS

#### Article 1. Procedure for the Examination of Bankruptcy Cases

1. Examination of bankruptcy cases shall be conducted by the procedure defined by the Civil Procedure Code of the Republic of Armenia and by this Law.

2. When this Law prescribes rules other than those defined by the Civil Procedure Code of the Republic of Armenia, the examination of bankruptcy cases shall be conducted in compliance with the rules defined by this Law.

#### Article 2. Scope of the Law

1. Any legal or natural person may be a debtor in bankruptcy proceedings as defined in this Law, except for:

- (a) the Republic of Armenia;
- (b) a community;
- (c) the Central Bank of the Republic of Armenia;
- (d) a bank;
- (e) a credit institution;
- (f) an investment company;
- (g) an insurance undertaking.

The concepts “bank”, “insurance undertaking”, “investment company” or “credit institution” used in this part shall not include the bank, insurance undertaking, investment company or credit institution that have received permission for self-liquidation from the Central Bank of the Republic of Armenia.

2. The law may define rules other than those defined by this Law for the insolvency and bankruptcy proceedings with involvement, in the capacity of a debtor, of insurance undertakings, charitable, investment, and pension funds, operator of a regulatory market for investment companies of securitisation funds, the Central Depository, pawnshops, natural monopolies and persons having a dominant position in the market, as well as non-governmental organisations.

3. Provisions of this Law shall apply to insolvency (bankruptcy) relations where foreign citizens or stateless persons are involved in the capacity of a debtor, unless otherwise provided for by the international treaties of the Republic of Armenia.

4. Judgments (decisions) on insolvency (bankruptcy) cases issued by the courts of foreign states shall be acknowledged in the Republic of Armenia in compliance with the international treaties of the Republic of Armenia, or, in case of their absence, on the basis of reciprocity principle.

5. Relations pertaining to insolvency (bankruptcy) of banks, credit institutions, investment companies and insurance undertakings shall be regulated by the Law of the Republic of Armenia on Bankruptcy of Banks, Credit Institutions, Investment Companies and Insurance Undertakings.

(Article 2 supplemented by Law HO-201-N of 11 October 2007; HO-108-N of 25 May 2008)

### Article 3. Grounds for Declaring the Debtor Bankrupt and the Insolvency Specifics

1. The debtor may be declared bankrupt by a court judgment at own initiative (application for voluntary bankruptcy) or upon the claim of a creditor (application for compulsory bankruptcy), if the debtor is insolvent.

2. The debtor may be declared bankrupt on the basis of an application for compulsory bankruptcy if the debtor has delayed, for 30 or more days, the fulfilment of indisputable payment liabilities, which exceed 500-fold of the minimum monthly salary as defined by law, and if the mentioned delay continues at the moment of making the judgment, even if the debtor is not insolvent. A payment liability is indisputable, if the debtor does not object thereto or if the debtor objects to the mentioned liability, but:

(a) the payment liability is recognised by a judgment having entered into legal force, and there is no possibility for set-off;

(b) the claim is based on a written transaction, and the debtor does not prove the fact of possessing sufficient grounds for objecting to the given claim (including the set-off of the claim);

(c) the claim derives from the obligation of the debtor to pay taxes, duties or other mandatory payments, and the debtor does not prove the fact of possessing sufficient grounds for objecting to the given claim (including the set-off of the claim);

(d) the undisputed part of the claim exceeds 500-fold of the minimum monthly salary as defined by law.

3. The debtor is insolvent where one of the grounds provided for below exists:

(a) the liabilities of the debtor exceed the value of the debtor's assets according to an estimation conducted on the basis of accounting rules in case of a legal person, and according to an estimation conducted on the basis of estimation standards, in case of a natural person (balance sheet insolvency). The value of assets shall not include the value of those assets which may not be levied in execution in accordance with the law.

(b) the debtor is unable to fulfil its overdue cash liabilities (actual insolvency).

#### Article 4. Jurisdiction over Bankruptcy Cases

1. The application for declaring the debtor bankrupt and the bankruptcy cases shall be examined by the first instance court of general jurisdiction as of the place of residence (registered office) of the debtor.

2. (Part 2 repealed by HO-48 of 5 February 2009)

3. (Part 3 repealed by HO-48 of 5 February 2009)

(Article 4 amended by HO-48 of 5 February 2009)

#### Article 5. The Duty of the Debtor to Apply to Court

1. The debtor shall be obliged to apply to court for declaring own bankruptcy, when:

(a) the satisfaction of claims of one or several creditors will make the complete fulfilment of cash liabilities with regard to other creditors impossible (foreseeable bankruptcy);

(b) the highest governing body of the debtor-legal person has adopted a decision on filing an application with the court for declaring the debtor bankrupt.

2. The liquidation commission (liquidator) of the debtor-legal person shall be obliged to file an application with the court for declaring the debtor bankrupt, if in the course of liquidation it becomes clear that the value of assets of the legal person undergoing liquidation is not sufficient for the complete satisfaction of the claims of creditors.

3. In cases provided for in this Article, the application for declaring the debtor bankrupt shall be filed with the court not later than within 10 days after revealing the respective grounds.

#### Article 6. The Duty of the Creditor or Other Persons to Apply to Court

1. In case there are grounds for declaring the debtor bankrupt as prescribed by Article 3 of this Law with respect to cash liabilities to the Republic of Armenia and community budgets (including taxes, duties, and other mandatory payments), the state or local self-government bodies shall be obliged to apply to the court with a claim of declaring the debtor bankrupt in the following cases and time limits:

(a) the respective competent state authority, within six months from the moment of revealing the liability in connection with the delay of payment of taxes, duties, customs, and other mandatory payments or fines arising from administrative actions;

(b) the head of community, within six months from the moment of revealing the liability in connection with the delay of payment of local duties or mandatory payments, as well as delay of fulfilling other liabilities in terms of cash claims of the community.

2. If in the course of compulsory enforcement of the judgment on levying execution on property it appears that, under the circumstance of enforcing levy of execution on all the property of the debtor for satisfying the claim of the creditor (claimant) through any enforcement proceeding (proceedings) of the compulsory enforcement service, the complete fulfilment of liabilities with respect to any creditor (claimant) will be impossible through the given or other enforcement proceeding (proceedings) due to the insufficiency of the property, the compulsory enforcement officer shall be obliged to suspend the enforcement proceeding (proceedings) immediately and file an application with the court within a one-month period for declaring the debtor bankrupt irrespective of the fact whether or not all those enforcement proceedings are pending before the same compulsory enforcement officer.

Within the meaning of this part, property shall be considered as insufficient if the estimated or initial price of the appraised property under lien and subject to sale through enforcement proceeding (proceedings) is lower than the size of the claim (claims). The size of the claim (claims) shall also incorporate the expenses in connection with the administration of the enforcement proceeding and indirect tax liabilities arising from the property disposal.

3. If the state bodies referred to in parts 1 and 2 of this Article fail to file a bankruptcy application within the prescribed time limit, the application shall be filed by the prosecution authorities in the manner prescribed by the Law of the Republic of Armenia on Prosecutor's Office and by other laws.

4. State bodies and officials may renounce the claim if the size thereof, as a consequence of fulfilling the obligation, has become smaller than the size provided for in Article 3(2) of this Law.

5. A bankruptcy application need not be filed by the state bodies mentioned in part 1 of this Article if there is a decision of the Government of the Republic of Armenia (hereinafter referred to as "the Government") on abstaining to file an application for declaring the given person as bankrupt.

#### Article 7. Personal Liability in Rem for Failure to Comply with the Duty of Applying to Court

1. If the persons mentioned in Article 5 of this Law fail to file an application, in cases and within time limits prescribed by the same Article, for declaring the debtor bankrupt, the persons having the obligation to file the application shall bear subsidiary responsibility with respect to the creditors for those liabilities of the debtor which have arisen after the expiration of the time period prescribed by Article 5(3) of this Law. The same responsibility shall arise also for the compulsory enforcement officer in case of failure by the latter to fulfil the obligation prescribed by Article 6 of this Law.

2. Competent officials of the state and local-self-government bodies referred to in Article 6 of this Law, in case of failure to file an application in cases and within the time limits prescribed by the same Article for declaring the debtor bankrupt, shall bear personal liability in rem for the damage caused as a consequence thereof to the Republic of Armenia and the community.

## Article 8. Intentional Bankruptcy

If the debtor has been declared bankrupt by the fault of the holder of the debtor's statutory (share, equity) capital or other persons, who may give binding instructions to the debtor or predetermine the latter's decisions, including the executive of the debtor (guiding the activities of the debtor by direct and indirect actions, etc. (intentional bankruptcy)), the founders (participants) of the debtor-legal person or the given persons shall bear joint responsibility for the liabilities of the debtor, in case of insufficiency of the latter's property.

## Article 9. Persons Affiliated with the Debtor

1. The following shall be considered as affiliated with the debtor:

(a) a legal person which is principal, subsidiary or dependent with respect to the debtor as prescribed by the legislation of the Republic of Armenia;

(b) the executive of the debtor, a member of the board of directors (observer board), a member of the collegial executive body of the debtor, the chief accountant (accountant), as well as the person relieved from one of the mentioned offices during the last year starting from the moment of submitting a bankruptcy application;

(c) the person holding more than 20% of the statutory (share, equity) capital of the debtor;

(d) the person or a member of a body which may give binding instructions to the debtor or predetermine the latter's decisions.

A person shall be considered affiliated with the debtor, if such person has relations defined by part 2 of this Article with the natural persons referred to in this part, and in case of affiliation with a legal person on the grounds under points (c) and (d) of this part – the natural person of such legal person, holding a position referred to in point (b) of this part shall also be considered affiliated with the debtor.

2. In case of a debtor-natural person - his or her spouse and persons related to them in two grades of ascending and descending kinship, siblings and persons related to them in ascending and descending kinship, as well as the siblings of the spouse - shall be considered as affiliated with the debtor.

3. Persons affiliated with the administrator and creditors shall be determined in the manner prescribed by parts 1 and 2 of this Article, unless otherwise provided for by this Law.

## CHAPTER 2

### BANKRUPTCY APPLICATION AND ITS ACCEPTANCE FOR PROCEEDINGS

#### Article 10. Filing and Withdrawal of the Application

1. An application on compulsory bankruptcy may be filed by:

(a) one or several creditors jointly;

(b) the respective official of the Judicial Acts Compulsory Enforcement Service in the case provided for by Article 6(2) of this Law.

2. The following persons shall be entitled to file and withdraw an application on voluntary bankruptcy:

(a) on behalf of the legal persons – their bodies or representatives (hereinafter referred to as “the executive of the debtor”), functioning within the scope of powers reserved by law and the statute;

(b) on behalf of a natural person - the given natural person or his or her representative.

3. An application filed by more than one creditor may be withdrawn only upon the written consent of all the applying creditors.

The application may be withdrawn prior to the acceptance thereof for proceedings.

#### Article 11. Form and Content of the Application

1. The application shall be submitted to the court in accordance with the form and content provided for by the Civil Procedure Code.

2. The following shall be additionally stated in the application:

(a) the size of the cash claim of the creditor, the amounts of the debt, damages, surcharge (fine, penalty) accompanied with corresponding calculations;

(b) the time limit for the fulfilment of the liability or a part (parts) thereof.

3. The following shall be attached to the application as well:

(a) state registration data as of not more than 30 days preceding the date of submitting the application on the declaration of the debtor-legal person or the debtor-individual entrepreneur as bankrupt;

(b) the latest financial statements submitted by the debtor-legal person or the debtor-individual entrepreneur, when the application is filed by state tax authorities.

4. Documents attached to the application shall be submitted in original or in properly certified copies.

The impossibility of submitting original documents or properly certified copies must be justified by the applicant.

5. The application of the creditor may be based on claims combining different liabilities.

6. The creditors may unite their claims against the debtor and file a single application with the court. Such application shall be signed by all the creditors, who united their claims.

## Article 12. Documents Filed by the Debtor

1. Where the debtor files an application for the declaration of own bankruptcy, the debtor shall submit (and in cases prescribed by Article 19(1) (f) of this Law, the debtor shall be obliged to submit), the following documents attached to the application:

(a) the list of property in the ownership of the debtor as of the results of the latest inventory (if any), including capital and financial investments, fixed and current assets as well as intangible assets and other assets, not referred to in this composition;

(b) the list of the debtor's creditors and debtors (including those nationals against whom the debtor bears liability for the damage caused to their life and health), their names (titles), place of residence (registered office), and the nature and size of separate liabilities, including off-balance sheet liabilities. These particulars shall also incorporate those liabilities which have not yet matured, as well as guarantees given and obligations assumed by the debtor.

(c) debtor's financial statements as of the last accounting period;

(d) if the debtor is a partnership, the names (titles) of the members, place of residence (registered office) and state registration data;

(e) the statement of the debtor on the intention of financial recovery;

(f) information (evidence) on other rights in rem.

2. If the debtor intends to undergo financial recovery, the financial recovery plan prepared in accordance with the requirements of this Law and attached to the application may also be filed by the debtor.

3. When it is impossible to file the documents provided for by this Article, the debtor shall be obliged to submit a reasoned justification thereon to the court.

## Article 13. Acceptance of the Bankruptcy Application for Proceedings

1. The application filed in conformity with the requirements provided for by this Law shall be accepted by the judge for proceedings on the day of its receipt. If there is a bankruptcy case against the debtor pending in the court, the bankruptcy application filed by a new claimant shall be examined in a separate proceeding and shall be subject to termination, if - under the previous proceeding - a judgment on declaring the debtor bankrupt enters into legal force.

2. The judge shall adopt a decision on the acceptance of the application for proceedings. The court shall appoint a temporary bankruptcy administrator along with the acceptance of the application for proceedings. When a temporary bankruptcy administrator is already appointed for the case pending in the court, a new temporary bankruptcy administrator shall not be appointed.
3. The court shall immediately send the decision on acceptance of the bankruptcy application for proceedings to:
  - (a) the state authority carrying out the state registration of the debtor;
  - (b) the state authorities carrying out the state registration of property rights, as well as the Central Depository;
  - (c) the tax authorities where the debtor is registered;
  - (d) the state customs authorities;
  - (e) the Central Bank of the Republic of Armenia (hereinafter referred to as “the Central Bank”);
  - (f) the Judicial Acts Compulsory Enforcement Service;
  - (g) the state authority (authorities) having issued a licence to the debtor, if there is information in the application on possessing a licence;
  - (h) the competent state authority on employment and social issues.
4. Upon the motion of the temporary administrator or the creditor and by the decision of the court, any required restriction may be applied over the disposal, possession or use of the property of the debtor or of the property under possession or use by the debtor, if the failure of applying these restrictions may result in the decrease of the debtor’s property.
5. From the moment of receiving the decision of the court on the acceptance of the bankruptcy application for proceedings, the Judicial Acts Compulsory Enforcement Service shall suspend all enforcement proceedings regarding the levy of execution of the debtor's property.

#### Article 14. Refusal to Accept the Bankruptcy Application

1. The judge shall refuse to accept the bankruptcy application for proceedings, where:
  - (a) there is a judgment having entered into legal force on declaring the debtor insolvent;
  - (b) an application with a claim of declaring bankrupt has been filed against a person who by virtue of this Law may not be a debtor.
2. The judge shall adopt a decision on refusing to accept the application on the day of its receipt.
3. The decision of the judge, the application and the documents attached thereto shall be properly sent to the applicant.



4. In case the applicant disagrees with the decision, he or she shall have the right to apply, within a period of three days after receiving the decision, to the chairperson of the court with a request to review the decision.

The application shall be considered by the chairperson of the court on the next day after the receipt thereof or by another judge, when the case is pending before the chairperson of the court.

As a result of considering the application, a decision shall be adopted on disallowing the decision on rejecting the application or on dismissing the application.

5. In case of disallowing the decision, the application shall be considered as accepted for proceedings on the day of adoption of such decision.

#### Article 15. Returning the Bankruptcy Application

1. The judge shall return the bankruptcy application:

(a) when the requirements of Articles 11 and 12 of this Law have not been observed, and the impossibility of submitting necessary documents has not been considered by the judge as grounded;

(b) when a single application unites claims on declaring several debtors as bankrupt;

(c) in other cases provided for by the Civil Procedure Code.

2. The judge shall adopt a decision on returning the application on the day of its receipt.

3. The return of the application shall not be an impediment for re-applying to the court after the elimination of the committed infringements.

4. In case the applicant disagrees with the decision he or she shall have the right to apply, within a three-day period after receiving the decision, to the chairperson of the court with a request to review the decision.

The application shall be considered by the chairperson of the court on the next day after the receipt thereof or by another judge, when the case is pending before the chairperson of the court.

As a result of considering the application, a decision shall be adopted on disallowing the decision on returning the application or on dismissing the application.

5. In case of disallowing the decision, the application shall be considered as accepted for proceedings on the day of adopting such decision.

## CHAPTER 3

### RESOLVING THE ISSUE ON DECLARATION OF BANKRUPTCY

#### Article 16. Declaration of Bankruptcy on the Basis of Application for Voluntary Bankruptcy

1. Not later than within three days after the acceptance of the application of the debtor for voluntary bankruptcy, the judge, without holding a court sitting, shall make a judgment on declaring the debtor bankrupt, if the debtor is prima facie insolvent.
2. If the insolvency of the debtor is disputable, the judge - within 10 days after accepting the application for proceedings - shall set a court sitting whereto the debtor and creditors mentioned in the application shall be invited.

The absence of properly notified creditors and the debtor shall not be an impediment for the case examination.

3. Based on the results of considering the application, the court shall render a judgment in the court sitting on the declaration of the debtor bankrupt or on the rejection of the application.
4. The court judgment shall enter into legal force after 15 days following the delivery of the judgment in cases referred to in part 1 of this Article and after 15 days following the publication of the judgment in the court sitting in cases referred to in part 3 of this Article.

#### Article 17. Declaring the Debtor Bankrupt on the Basis of the Application of the Creditor (Creditors)

1. The next day after accepting for proceedings the application for compulsory bankruptcy, the court shall send the decision on the acceptance of the application for proceedings to the debtor, by attaching the copy of the application.

If the debtor does not dispute its bankruptcy in a written form within seven days after receiving the court decision, on the eighth day the judge, without convening a court sitting, shall render a judgment on declaring the debtor bankrupt, in case the debtor is insolvent or there are grounds provided for by Article 3(2) of this Law.

2. In case the debtor disputes its bankruptcy by submitting written objections thereto to the court within seven days after receiving the court decision, the court - within 10 days after receiving the objections - shall hold a court sitting by properly notifying of the date and venue thereof to the debtor and the person (persons) having submitted the application.

The absence of the debtor that has been properly notified of the date and venue of the court sitting shall not be an impediment for the case examination.

3. If, after submitting the application to the court, as a result of partial or full redemption of the debt, the debtor ceases to be insolvent or the grounds defined in Article 3(2) of this Law cease to

exist, the court shall oblige the debtor to cover court expenses by the court decision on rejecting the application.

4. The court judgment shall enter into legal force after 15 days following the delivery thereof in cases referred to in part 1 of this Article and after 15 days following the publication of the judgment in the court sitting in cases referred to in part 2 of this Article.

#### Article 18. Inadmissibility of the Conciliation Agreement

Either after examination of the application for compulsory bankruptcy or after declaration of the debtor bankrupt, no conciliation agreement may be signed in a manner other than the procedure prescribed by this Law.

#### Article 19. Consequences of Declaring the Debtor Bankrupt and Rejecting the Application

1. Following the entry into legal force of the judgment on declaring the debtor bankrupt, the court shall:

(a) immediately appoint, in the manner prescribed by Article 22 of this Law, a bankruptcy administrator (hereinafter referred to as “the Administrator”) by terminating the powers of the temporary administrator;

(b) immediately appoint the date and venue of the first Meeting of Creditors. The first Meeting of Creditors shall be appointed not later than within 80 days and not earlier than within 50 days after the date of publication of the declaration on bankruptcy in printed media, publishing information on state registration of legal persons.

The appeal against the court decision on approving the final list of claims may not be an impediment for holding the first Meeting of Creditors, except for cases when all claims approved by the decision are appealed against.

(c) immediately inform about the declaration of the debtor as bankrupt, on rejection of the application or on dismissal of the application to:

- the state authority carrying out the state registration of legal persons;
- state authorities carrying out state registration of real estate and other property (rights) subject to state registration;
- the tax authorities where the debtor is registered;
- the state customs authorities;
- the Central Bank - for the purpose of notifying the banks and other credit institutions of the Republic of Armenia and the Central Depository of Armenia;
- the Judicial Acts Compulsory Enforcement Service;

- the Court of Cassation of the Republic of Armenia - for the purpose of notifying all the courts of the Republic of Armenia;
- the state authority (authorities) having issued a licence to the debtor, if there is information in the application on possessing a licence;
- the competent state authority on employment and social issues.

The notification provided for by this point shall be sent in a written form or in a manner coordinated with particular government agencies, including through electronic means of communication.

(d) oblige the Administrator to publish the information about declaring the debtor as bankrupt, appointment of the Administrator and the appointment of the first Meeting of Creditors in printed media, publishing information about the state registration of legal persons and post it in a specially designated place in the court building not later than within five days after the corresponding judicial acts enter into force;

(e) convene a court sitting in cases provided for by this Law, upon the motion of the Administrator, the Meeting of Creditors, the creditor or the debtor;

(f) oblige the debtor to submit documents defined by Article 12 of this Law to the Administrator within 10 days, if the application has been filed by the creditor, the compulsory enforcement officer or if the submitted documents are incomplete, in case the application has been filed by the debtor;

(g) immediately after adopting a decision on the liquidation of the debtor, adopt a decision on suspension of the rights to dispose and manage the property of the debtor;

(h) attach the property and cash assets of the debtor, except for cases provided for by the Law of the Republic of Armenia on Payment Systems and Payment service Organisations;

(i) terminate the case proceedings pending in the court initiated upon other applications with the claim of declaring the same debtor bankrupt.

2. From the moment the judgment on declaring the debtor bankrupt enters into legal force, the debtor may undergo inspection or investigation only upon the decision of the court. Within the validity period of the financial recovery plan of the debtor and within the period of recommencement of activities of the debtor undergoing liquidation proceedings, as well as in cases provided for by the Civil Procedure Code of the Republic of Armenia no decision of the court shall be required for conducting inspection or investigation.

The decision on giving permission for inspection or investigation may be appealed against through a review procedure.

It is prohibited to conduct any inspection or investigation after the commencement of the liquidation process of the debtor.

3. From the moment the judgment on declaring the debtor bankrupt enters into legal force the powers of persons - as defined by law and the statute of the debtor - participating in the debtor's statutory (share, equity) capital, as well as the powers conditional upon such participation, shall

be terminated. The exercise of the mentioned powers may be permitted by the decision of the court within the scope of the financial recovery plan.

From the moment the judgment on declaring the debtor bankrupt enters into legal force, the debtor (the executive) shall act by the procedure provided for by Article 47(2) and (3) of this Law.

4. The state bodies, defined in point 1(c) of this Article, shall be obliged - within a 15-day period - to submit to the court information about the registration of the property of the debtor (including participation in share, equity or other capital of legal persons), as well as about the registration of rights (including the rights of the debtor's pledgee), while the banks and the Central Depository of Armenia shall submit information about the bank accounts of the debtor and their balance, as well as about the rights of the debtor with respect to securities.

5. After the entry into legal force of the judgment on declaring the debtor bankrupt, the creditors may acquaint themselves with the materials of the bankruptcy proceedings.

6. The legally effective court judgment on rejecting the application on declaring the debtor bankrupt shall serve as a ground for eliminating the suspensions provided for by Article 13(4) and (5) of this Law.

7. The rejection of the application based on argumentation of unapparent bankruptcy grounds shall not prohibit the same person to file the same application with the court against the same debtor, when the existence of grounds for bankruptcy becomes apparent.

(Article 19 amended by HO-48 of 5 February 2009)

#### Article 20. Appealing against Acts Adopted within a Bankruptcy Case

1. The judgment of the court on declaring the debtor bankrupt or on rejecting the bankruptcy application may be appealed against through review procedure prior to the entry into legal force of the judgment.

2. The judgment of the court on declaring the debtor bankrupt or on rejecting the bankruptcy application may be appealed against by the debtor, the creditor (creditors) and the compulsory enforcement officer, in case the latter files an application.

3. The appeal against the court judgment shall not suspend the bankruptcy proceedings as well as the actions of the temporary administrator or the Administrator appointed by the court.

4. (Part 4 repealed by HO-48 of 5 February 2009)

5. Decisions adopted in the course of the bankruptcy case examination may be appealed against through review procedure within a 15-day period after their adoption only in cases provided for by this Law. In all other cases the decisions of the court shall be final and shall not be subject to appeal.

6. The decision of the court on approving the final list of claims may be appealed against fully or partially in terms of separate claims. When the decision is appealed partially, the court decision on approving the final list of claims shall enter into force with respect to those claims which have not been appealed against.

(Article 20 amended by HO-48 of 5 February 2009)

## CHAPTER 4

### TEMPORARY BANKRUPTCY ADMINISTRATORS AND ADMINISTRATORS

#### Article 21. Temporary Administrator

1. A natural person licensed as a bankruptcy administrator by an authorised body of the Government and meeting the requirements prescribed by this Law for a bankruptcy administrator may be appointed as a temporary administrator. The appointment and early dismissal of a temporary administrator shall be carried out in the prescribed manner for the appointment and early dismissal of an administrator.

2. The temporary bankruptcy administrator shall:

(a) file a motion with the court for applying the restrictions provided for by Article 13(4) of this Law;

(b) exercise the powers provided for by Article 29(1) (e) and (f) of this Law until the entry into legal force of the judgment on declaring the debtor bankrupt.

3. The powers of the temporary administrator shall be terminated by the decision of the court on the appointment of the Administrator.

4. In case the application on declaring the debtor bankrupt is rejected, as well as in case another person has been appointed as a bankruptcy administrator for the given bankruptcy case, the monthly remuneration of the temporary administrator shall be paid at the expense of the debtor in the amount of 1/12 of the annual salary of the executive of the debtor.

5. The procedure for appealing against the actions (inaction) of the temporary administrator and the responsibility of the temporary administrator shall be determined by the rules prescribed by Articles 31-32 of this Law.

#### Article 22. Appointment and Dismissal of the Administrator

1. A natural person licensed as a bankruptcy administrator by an authorised body of the Government, and who is a member of the Self-Regulatory Organisation of Administrators, may be appointed as an Administrator.

2. When a person appointed as an Administrator refuses to assume the responsibilities of an Administrator, the court shall appoint as Administrator a different candidate nominated by the Self-Regulatory Organisation of Administrators.

3. When the refusal of the Administrator is ungrounded, the court shall inform thereon to the licensing body and to the Self-Regulatory Organisation whereof the Administrator is a member.

4. The Administrator may refuse to assume the responsibilities of an Administrator only due to high work-load or other good reasons.
5. Within a 7-day period after the adoption of the judgment on declaring the debtor bankrupt, the judge shall classify the bankruptcy case as of the 1st, 2nd and 3rd classes, and shall submit a request to the Self-Regulatory Organisation of Administrators to nominate a candidate of an Administrator holding the corresponding class.
6. Upon receiving the court request, the Self-Regulatory Organisation of Administrators shall organise drawing of lots among the administrators, who are members of the organisation and hold the corresponding class, and no later than 12 p.m. on the next working day after receiving the request shall present to the court candidates for the Administrator for the given case.
7. The procedure for the classification of bankruptcy cases, definition of criteria for rating of administrators and maintenance of the register of rating, the procedure for the determination of classification ranks as of the rating, for the organisation of drawing of lots and nomination of candidates, and determination of the form of application for providing the list of candidates of administrators shall be defined by the Government.

#### Article 23. Requirements for an Administrator

1. A license of an Administrator may be granted to a natural person, who has a higher education and has held a position related to organisation and management of financial and economic activities of any organisation for at least three years within the five years preceding the day of applying for the license or has undergone relevant practical training at the Self-Regulatory Organisation of Administrators. The arrangement and implementation of the practical training, as well as the determination of conditions for conducting thereof shall be performed by the Self-Regulatory Organisation of Administrators. The time period for the practical training shall be prescribed by the Self-Regulatory Organisation of Administrators; however, it may not be less than six months.
2. A person may not be appointed as an Administrator and, in case of having been appointed, shall be subject to dismissal, if he or she:
  - (a) is affiliated with the creditors or the debtor;
  - (b) is an officer of state or local-self government bodies;
  - (c) is a defendant in a criminal case;
  - (d) has been convicted for committing acquisitive crime, and the conviction has not expired;
  - (e) has a claim or obligation with respect to the debtor;
  - (f) has been declared bankrupt as a natural person within the last five years;
  - (g) has not compensated for damages caused to a creditor or a debtor resulting from the performance of duties of an administrator in other bankruptcy cases;
  - (h) within the last year has been early dismissed by the court from performing the duties of an Administrator in the manner provided for by Article 32(1);

(i) is not a member of the Self-Regulatory Organisation of Administrators.

#### Article 24. Registration of the Administrator in the Court

Administrators, who are not members of the Self-Regulatory Organisation of Administrators, shall be obliged to register with the court within a 10-day period after receiving a license, by presenting copies of their licenses and information proving the insurance in a relevant size of their civil liability. In case of changes in the information defined by the documents provided for in this Article, the administrators shall immediately notify thereon to the court.

#### Article 25. Liability in Rem of the Administrator

1. The Administrator shall be obliged to insure his or her civil liability for damages caused to the persons involved in the bankruptcy case. For every Administrator the size of insurance shall not be less than the following:

(a) 20.000-fold of the minimum salary for the first class administrator;

(b) 15.000-fold of the minimum salary for the second class administrator;

(c) 10.000-fold of the minimum salary for the third class administrator.

2. A creditor or a debtor having incurred damages by the fault of the Administrator shall be regarded as the insurance beneficiary.

The compensation of damages incurred by beneficiaries by the fault of the Administrator shall be paid from the insurance of the Administrator, or from the property of the Administrator in case of insufficiency of the insurance size.

If the size of the insurance prescribed by law is not sufficient for satisfying the claims for damages of all the beneficiaries having incurred damages, the satisfaction of claims shall be carried out in two stages.

In the first stage, the compensation of damages shall be paid from the insurance by distributing the insurance amount among all beneficiaries, who have incurred damages, in proportion with the claims of their damage.

In the second stage, the compensation shall be made from the property of the Administrator to all the beneficiaries having incurred damages, in proportion with the part of their claims for damages, not covered by the insurance.



## Article 26. Self-Regulatory Organisation of Administrators

1. According to this Law, a legal person regarded as a non-commercial organisation with a membership of at least 20 licensed administrators shall be considered a self-regulatory organisation of administrators.
2. The Self-Regulatory Organisation of Administrators shall be considered established from the moment of its state registration by the procedure defined by law. The state registration of the Self-Regulatory Organisation of Administrators shall be carried out by the central body of the state register. In addition to the documents defined by law for the registration of the Self-Regulatory Organisation of Administrators, particulars about its members and copies of their licenses, information proving the existence of insurance corresponding to the size of civil liability of the members shall also be presented. The Self-Regulatory Organisation of Administrators shall include the words "self-regulatory organisation" or the abbreviation SRO.
3. The Self-Regulatory Organisation of Administrators shall be registered with the court within a 10-day period after the moment of state registration, by submitting copies of documents provided for in part 2 of this Article. The Self-Regulatory Organisation of Administrators shall immediately notify the court about the changes in the information defined by the documents provided for in this part.
4. Upon the request of interested parties, the Self-Regulatory Organisation of Administrators may be liquidated upon a court decision, in case of numerous and gross violations of requirements of law or other legal acts, as well as of its statute and rules.
5. The goal of activities of the Self-Regulatory Organisation of Administrators shall be the contribution to the transparency and productivity of the activities of its members, supervision over their activities, protection of joint interests, development and application of rules of ethical behaviour of its members, as well as the implementation of powers prescribed by this Law.
6. The Self-Regulatory Organisation of Administrators shall have the right to:
  - (a) exercise supervision over the activities of its members with a view of complying with the requirements prescribed by this Law, the statute and the rules of the Self-Regulatory Organisation;
  - (b) adopt procedures and rules with the aim of ensuring the qualification of its members and the application of rules of professional ethics, as well as with the aim of conducting practical training of persons for receiving licence of an administrator;
  - (c) initiate a disciplinary proceeding against its members and impose penalties (including money penalties) for violation of this Law, the statute and the rules of the Self-Regulatory Organisation;
  - (d) maintain a register of rating of administrators;
  - (e) carry out other operations and activities not proscribed by the legislation.

## Article 27. Property and Governing Bodies of the Self-Regulatory Organisation of Administrators

1. Property transferred to the Self-Regulatory Organisation of Administrators from its members (founders) shall be the ownership of the Self-Regulatory Organisation of Administrators. The members shall not bear responsibility for the liabilities of the Self-Regulatory Organisation of Administrators. The Self-Regulatory Organisation of Administrators shall not bear any responsibility for the liabilities of its members. The members shall pay one-time and regular fees for their membership.

2. The highest governing body of the Self-Regulatory Organisation of Administrators shall be the General Meeting of its members, which shall carry out the management of the organisation by convening annual and special sessions. The General Meeting shall have quorum if two thirds of the members are participating. Decisions at the General Meeting shall be adopted by a simple majority of votes, and with regard to issues under exclusive jurisdiction of the General Meeting, by at least two thirds of the total number of all members. The following are issues of exclusive jurisdiction of the General Meeting:

(a) approval of the statute, rules, procedures of the self-regulatory organisation and amendments thereto;

(b) deprivation of membership to the self-regulatory organisation;

(c) election of the Observer Board, members and the head of the supervisory service and termination of their powers;

(d) approval of annual reports on the activities of the self-regulatory organisation;

(e) other issues prescribed by the statute of the self-regulatory organisation.

3. The Observer Board of the Self-Regulatory Organisation of Administrators shall elect and appoint the executive body; shall exercise other powers reserved to it by the statute and by the decisions of the Meeting. The number of members and the procedure of activities of the Observer Board shall be defined by the statute. Issues under the jurisdiction of the Observer Board may not be transferred to the executive bodies. A member of the Observer Board may not be simultaneously an executive director or a member (head) of the executive body or a member (head) of the disciplinary commission.

4. The executive director or the administration and the chief of administration shall organise the activities of the Self-Regulatory Organisation and shall be accountable to the Observer Board. The competences of the executive body shall be defined by the statute of the self-regulatory organisation. The executive director, a member or the chief of administration shall have a license of an administrator but may not be simultaneously an administrator in a bankruptcy case or a member of the disciplinary commission.

5. In compliance with the procedure defined by the statute, as well as by the rules or procedures of the Self-Regulatory Organisation, the disciplinary commission shall supervise the compliance of activities of the members with this Law, with the statute and the rules, procedures of the Self-Regulatory Organisation, and shall initiate disciplinary proceedings and apply corresponding penalties with respect to members having committed infringements. A member of a disciplinary commission shall have a license of an administrator and may not simultaneously be a member of

the Observer Board, an executive director or a member of administration or an employee of the executive body.

#### Article 28. Liability of a Member of the Self-Regulatory Organisation of Administrators

1. The Self-Regulatory Organisation of Administrators shall be obliged to consider the complaint filed with respect to the activity of its member within a one-month period. In case of detecting gross infringements of the requirements of the law and other legal acts, as stated in the complaint, the General Meeting of the Self-Regulatory Organisation of Administrators shall resolve the issue related to the release of the given administrator from the membership to that organisation, which shall be resolved not later than within one month following the day of detection of or notification about the infringement.

2. The decision on the removing a member from the membership to the Self-Regulatory Organisation of Administrators shall be sent to the licensing body and to the court within five days.

3. The decision may serve as a ground for the suspension or termination of the validity of the license by the procedure defined by law, as well as for the dismissal of the Administrator by the court from the performance of his or her duties.

#### Article 29 Powers of the Administrator

1. The appointed bankruptcy administrator shall:

(a) upon the request of the court, upon his or her initiative or at the request of creditors holding more than five percent of claims against the debtor, convene a Meeting of Creditors and preside over it.

If the Meeting of Creditors is convened in order to file a motion with a court for dismissing the Administrator, the meeting shall be presided over by the largest creditor present at the meeting who has the right to vote;

(b) file a bankruptcy application with the court in cases provided for by this Law;

(c) apply to courts on behalf of the debtor on issues requiring a solution through judicial procedure, take part in court sittings relating to the debtor, where the latter is a claimant or a third party with independent claims against the subject of dispute, and act on behalf of the debtor without a power of attorney;

(d) for the purpose of ensuring proper implementation of his or her powers, involve relevant professional organisations or specialists and other employees and pay them at the expense of the debtor;

(e) arrange the inventory of, and take measures for ensuring the maintenance of property of the debtor;

(f) analyse the financial condition of the debtor, reasons of bankruptcy, as well as financial, economic and investment activities of the debtor and its position in the commodity market;

(g) keep a register of claims of creditors;

(h) check the reasoning of claims against the debtor;

(i) open a special bankruptcy account for the debtor in one of the five leading commercial banks of the Republic of Armenia in terms of their fixed capital and deposit on that account all the cash funds addressed to debtor;

- (j) attach and lift attachment from the property and cash funds of the debtor based on a court decision;
  - (k) exercise supervision over the performance of duties by the executive of the debtor;
  - (l) exercise other powers prescribed by law.
2. The Administrator shall be exempt from the payment of state duties set for filing statements of claims, applications, appeals and cassation appeals submitted within the scope of his or her powers defined by this Law.
  3. The Administrator shall act on behalf of the debtor and at his or her own responsibility while exercising the powers defined by this Law.
  4. Every Administrator has a seal bearing the representation of the Coat of Arms of the Republic of Armenia, and the inscription of his or her name, surname and the license number.

#### Article 30. Remuneration of the Administrator

1. The Administrator shall be remunerated from the cash funds of the debtor, funds generated from sales (alienation) of the property of the debtor or third parties or from collection of assets (including accounts receivable) thereof.
2. In case of financial recovery of the debtor, the monthly remuneration of the Administrator shall be set by the financial recovery plan, taking into account the volume of managed assets of the debtor and/or complexity of management thereof.
3. Remuneration of the Administrator shall be determined by a court decision at the following rates of the size of satisfaction of claims of creditors:
  - (a) 10% for an amount of up to AMD25 million;
  - (b) AMD2,500,000 plus 8% of any amount exceeding AMD25 million, for an amount of AMD25-50 million;
  - (c) AMD4,500,000 plus 7% of any amount exceeding AMD50 million, for an amount of AMD50-75 million;
  - (d) AMD6,250,000 plus 6% of any amount exceeding AMD75 million, for an amount of AMD75-100 million;
  - (e) AMD7,750,000 plus 4% for any amount exceeding AMD100 million, for an amount of AMD100-500 million; and
  - (f) AMD23,750,000 plus 3 % of any amount exceeding AMD500 million, for an amount above AMD500 million.
4. The following adjustment coefficients shall be applied to the rates referred to in part 3 of this Article, depending on the class of the bankruptcy administrator:
  - (a) 1 for the 1st class Administrator;
  - (b) 0,9 for the 2nd class Administrator; and

(c) 0,8 for the 3-rd class Administrator.

5. Where the debtor does not possess any property or the value of the property thereof is less than 50-fold of the minimum salary, the Administrator shall receive a compensation from the state budget of the Republic of Armenia in an amount of 30-fold of the minimum salary, within a one-month period after the closure of the bankruptcy case.

#### Article 31. Disputing the Actions (Inaction) of the Administrator

1. The debtor and the creditor (creditors) may appeal before a judge against the actions or inaction of the Administrator. The appeal may be brought to the court within 10 days from the day when the appellant has learnt or should have learnt about the infringement of his or her right.
2. The court shall examine the appeal and make a relevant decision within a three-day period after receiving it and inform thereon to the appellant and the Administrator.
3. The appeal shall not suspend the actions of the Administrator.
4. The actions of the Administrator may not be appealed in other courts.

#### Article 32. Responsibility of the Administrator

1. If the Administrator fails to exercise or improperly exercises his or her powers prescribed by this Law, the judge - upon his or her own initiative, upon the motion of the debtor or the creditor (creditors) - may dismiss the Administrator by notifying the debtor and the creditors thereof. The person initiating the issue of dismissing the Administrator from the performance of his or her duties shall - on the day preceding the filing of the motion with the court - submit an application to the Self-Regulatory Organisation of Administrators, requesting to provide the court with the list of candidates for an administrator for the given case. The Self-Regulatory Organisation of Administrators shall provide the court with the list of candidates for an administrator in the manner prescribed by Article 22 of this Law.

The issue of remuneration and the amount thereof for the period of employment of the dismissed Administrator shall be determined by the court.

2. The court decision on failure to perform or improper performance of duties by an Administrator shall serve as a ground for terminating the Administrator's licence in accordance with the procedure prescribed by law.

Other grounds for termination or suspension of a license of the Administrator and the procedure thereof shall be laid down by a different law.

3. The court decision on failure to perform or improper performance of duties by an Administrator shall serve as a ground for expelling him or her from the Self-Regulatory Organisation of Administrators.

## CHAPTER 5

### MEETING AND BOARD OF CREDITORS

#### Article 33. Meeting of Creditors

1. All creditors present at the first Meeting of Creditors may participate in the Meeting of Creditors (hereinafter referred to as “the Meeting”) with a right of vote. The rest of the creditors shall participate in subsequent meetings with a right of an advisory vote, with the exception of the creditor not having participated in the first Meeting of Creditors, but having registered the largest claim in the total number of claims in cases prescribed by paragraph 5(2) of this Article.

When the claim of the creditor has been partially objected, he or she may participate in the first Meeting. In such case the creditor shall have a vote in regard to the unobjected part of the claim.

The Meeting shall have quorum, if at least half of the creditors with a right to vote participate in the meeting.

Where there is only one creditor in the bankruptcy case, the decisions under jurisdiction of the Meeting of Creditors shall be made by that creditor.

2. During the Meeting the debtor shall be obliged to answer any question posed by the Administrator and the creditors in regard to his or her financial and economic activities.

3. The Meeting shall be convened and presided over by the Administrator, with the exception of cases provided for in Article 29(1)(a).

4. The following shall fall within the exclusive jurisdiction of the Meeting:

(a) approval of the financial recovery plan and submitting a recommendation to the court on the extension of the implementation period of the plan;

(b) approval of the composition of the Board of Creditors and the early termination of powers of the Board or its individual members;

(c) adoption of its statute,

(d) adoption of other decisions falling within the exclusive jurisdiction of the Meeting as prescribed by this Law.

5. Creditors (creditor) having attended the first Meeting of Creditors shall have 100 percent of the votes at the Meeting of Creditors, each having a vote proportionate to his or her claims approved and registered in the register.

Where the creditor with the largest registered claim that failed to attend the first Meeting of Creditors attends the subsequent meetings of creditors, creditors that attended the first Meeting of Creditors and such creditor shall, at the given meeting, have 100 percent of the votes in proportion to their claims.

A creditor (creditors) shall retain the right of vote in regard to the part of claim which has not been satisfied. Where the claim of a creditor with a right to vote is fully satisfied, the creditor shall forfeit the right of vote. In such case, creditors referred to in paragraphs 1 and 2 of this part with unsatisfied claims shall have 100 percent of the votes of the Meeting, which shall be proportionate to their respective claims approved or registered in the register.

6. Provided an appropriate notification is given of the venue and the date of holding the first Meeting, the Meeting shall have quorum irrespective of the number of votes of creditors (creditor) represented therein.

Subsequent meetings shall have quorum conditional upon the participation of creditors (creditor) holding a simple majority of votes conferring a right to ballot.

7. Minutes of the Meeting sessions shall be taken. The Administrator shall sign the minutes of the Meeting, a copy whereof shall be submitted to the court on the following day of holding the Meeting.

8. The following shall be attached to the minutes of the Meeting:

(a) the register of claims of creditors as of the day of holding the Meeting (the minutes of the first Meeting only);

(b) registration forms of the attendees of the Meeting;

(c) ballots,

(d) powers of attorney or other documents certifying the powers of attendees of the Meeting;

(e) documents submitted for discussion at the Meeting by the attendees;

(f) evidence of due notification of creditors about the venue and the date of convening the Meeting;

(g) other documents.

#### Article 34. Notification of the Meeting

1. The Administrator shall give proper notification about the venue and the date of the Meeting to creditors having a right to participate in the Meeting and to the debtor.

The notice shall be sent by a registered letter with advice of delivery or by other means of communication that enable formulation of communication or delivered with a receipt of notification; the Administrator shall, through registered letter, notify about the first Meeting of Creditors also to citizens against whom the debtor bears liability for the damage caused to their life or health (where applicable).

Where the number of creditors with a right to attend the Meeting exceeds 10 or in case of absence of information necessary for notification of persons with a right to attend the Meeting, and for notifying creditors with a right to attend (with a right of an advisory vote) the Meeting, a relevant announcement published in printed media that publishes information on state registration of legal persons shall be considered to be a proper notification.

2. Persons with a right to attend the Meeting shall be notified not later than three days prior to the date of convening the Meeting, and in cases provided for by paragraph 1(3) of this Article the announcement shall be published five days prior to the date of the Meeting.

3. The notification of the meeting shall contain:

(a) name and registered office (place of residence) of the debtor;

(b) date, time and venue of convening the Meeting;

(c) issues included in the agenda of the Meeting;

(d) procedure of getting acquainted with the information and materials relating to issues to be discussed at the Meeting;

(e) procedure of registration of attendees.

#### Article 35. Procedure on Convening the Meeting

1. The Meeting shall be convened by the Administrator at his or her own initiative or at the request of the creditor (creditors) holding five or more percent of votes. The meeting shall be convened at the initiative of the creditor, given that the latter covers the expenses for organising and holding the Meeting. The expenses of the Meetings convened at the Administrator's initiative shall be covered by the debtor.
2. The request on convening a meeting shall indicate the issues proposed in the agenda, which shall be incorporated in the agenda of the Meeting without casting a vote.

The Administrator shall not be entitled to change the formulations of the issues included in the agenda of the Meeting to be convened upon the request of the creditors.

3. The Administrator shall hold the Meeting at the request of the creditor (creditors) not later than within two weeks after the receipt of the request on convening a meeting. The creditor (creditors) requesting to convene the Meeting shall, based on the estimate submitted by the Administrator, reimburse the expenses of the Meeting held at the creditor's request not later than within one week after requesting to convene a Meeting. Funds transferred and not used for the Meeting convened at the request of the creditor (creditors) shall be returned to the latter within three days after the closure of the Meeting.

#### Article 36. Manner of Adopting Decisions at the Meeting

1. Decisions at the Meeting shall be adopted by simple majority of votes of creditors present at the Meeting and with a right to vote, unless otherwise provided for by this Law.
2. Within a three-day period, the Administrator, creditors and the debtor shall have the right to file an appeal with the court against the decisions of the Meeting that are adopted in breach of the requirements of this Law or other legal acts. The court shall be empowered to declare the decision of the Meeting invalid in case of violation of the claimant's rights prescribed by this Law or other legal acts. Otherwise, the court shall reject the appeal.

The judge shall examine the appeal within a one-week period. The judge shall be entitled to leave the decision unchanged where the participation of the relevant creditor in the voting could not have affected the results of the voting and where the violations are not substantial.

#### Article 37. Voting Ballot

1. Voting at the Meeting shall be conducted through ballots.
2. Ballots shall be prepared by the Administrator and provided to the creditors with a right to vote participating in the Meeting.
3. The ballot shall contain the following information:
  - (a) date, time and venue of convening the Meeting;
  - (b) the formulation and the sequence of each issue to be voted on;
  - (c) voting options, such as "for" and "against" for each issue to be voted on;
  - (d) an indication that the ballot shall be signed by the creditor;
  - (e) clarification on the procedure of filling in the ballot.



4. The manner of conducting and organising the voting shall be determined by the rules of procedure of the Meeting.

#### Article 38. Board of Creditors

1. The Board of Creditors (hereinafter referred to as “the Board”) shall represent the interests of creditors and shall exercise supervision over the activities of the Administrator in the manner prescribed by this Law. The Board shall not be formed where the number of creditors with registered claims is less than 10. In such cases, as well as in other cases when a board of creditors is not formed, the powers of the Board shall be exercised by the Meeting.

2. The Board shall be formed in the first Meeting of Creditors. Five creditors with the largest unsecured claims shall be included in the Board according to the size of approved claims, regardless of their right to vote at the Meeting.

3. Where the number of the creditors with unsecured claims willing to be included in the membership composition of the Board is less than five, the creditors with the next largest unsecured claims shall be included in the Board.

4. The Board shall be empowered to:

(a) request from the Administrator information about the financial condition and the bankruptcy proceedings of the debtor;

(b) appeal against the actions of the Administrator in cases provided for by law;

(c) exercise other powers provided for by this Law.

5. Each member of the Board shall have only one vote at the time of voting. Delegating the vote of the member of the Board to another person shall not be allowed.

6. The decision of the Board shall be deemed adopted where more than half of the members of the Board have voted for it. The procedure of discussing issues or decision-making shall be determined by the rules of procedure adopted by the Board. The decisions of the Board shall be signed by its members by stating whether they are "for" or “against” such decision. Where a member of the Board that has voted against a decision refuses to sign it, a relevant notation shall be made in the decision. The authenticity of the notation shall be approved by signatures of other members of the Board. The Board member, who has voted against the decision, may attach his or her opinion to the decision.

7. The Administrator shall preside over the sittings of the Board without a right to vote.

8. The Administrator, the creditors and the debtor shall have the right to appeal to the court within a three-day period against the decisions of the Meeting that are adopted in breach of the requirements of this Law or other legal acts. The court shall be empowered to declare the decision of the Meeting invalid in case of violation of rights of the claimant as prescribed by this Law or other legal acts. Otherwise, the court shall reject the appeal.

The judge shall examine the appeal within a three-day period. The judge shall be entitled to leave the decision unchanged where the participation of the relevant creditor in the voting could not have affected the results of the voting and where the violations are not substantial.

## CHAPTER 6

### CLAIMS OF CREDITORS

#### Article 39. Moratorium on the Satisfaction of the Claims of Creditors

##### 1. From the moment of accepting the bankruptcy application for proceedings:

(a) it shall be prohibited for the debtor to give satisfaction in cash or in other manner to the creditors in accordance with its contractual or other liabilities without a court decision, with the exception of liabilities related to day-to-day operations of the debtor;

(b) where there is no court decision, any alienation, hiring out, pledging or other type of encumbrance of the debtor's property, as well as of shares (stocks, equity shares and other securities defined by law) in a debtor organisation owned by the participant (participants) of the debtor shall be prohibited, except for cases provided for by Article 55(2) of this Law;

(c) all enforcement proceedings of levy of execution on property shall be suspended, and indisputable recoveries determined by a writ of execution or other documents shall be prohibited;

(d) offsetting any liability, assumed by the creditor with respect to the debtor prior to submitting a bankruptcy application, with the claims towards a debtor shall be prohibited.

##### 2. From the moment the judgment on declaring the debtor bankrupt enters into legal force:

(a) it shall be prohibited for the debtor to give satisfaction in cash or in other manner to the creditors in accordance with any contractual or other liabilities of the debtor, without a court decision;

(b) initiation of any civil or administrative proceedings giving rise to liabilities in rem for the debtor, where the latter is a defendant or a third party on the side of the defendant not having independent claims against the subject of dispute as regards the debtor, shall be prohibited;

(c) civil proceedings related to the bankruptcy proceeding or impacting the process thereof, and giving rise to liabilities in rem for the debtor, where the debtor is a defendant or a third party on the side of the defendant having no independent claims in regard to the subject of dispute as regards the creditor, shall be terminated.

Such civil proceedings may be resumed after the closure of the bankruptcy case, in case of financial recovery of the debtor. Otherwise, the court judgment having entered into legal force on closing the bankruptcy case shall serve as a ground for terminating the civil proceedings as regards the winded-up debtor;

(d) the calculation, payment or levying of surcharges and other financial sanctions, as well as of accrued interest subject to calculation, payment or levying for failure to fulfil or improper fulfilment of cash liabilities (including secured liabilities) and liabilities pertaining to mandatory payments, including taxes, duties and other mandatory payments, shall be suspended;

(e) all enforcement proceedings on levy of execution of property shall be terminated.

##### 3. Moratorium shall not cover:

(a) levy of execution of alimony;

(b) remuneration of the temporary administrator, administrative and other expenses necessary for current activities of debtor set by the intermediate allocation plan.

4. From the moment the judgment on declaring a debtor-legal person or a debtor-individual entrepreneur bankrupt enters into legal force, the submission of financial and other statements shall be effected by the executive of the debtor or by the individual entrepreneur, who shall be liable for failure to submit or improper submission thereof as prescribed by legislation.

5. From the moment of suspension of the debtor's activity, the Administrator shall, on behalf of the debtor, submit:

(a) information on additional liabilities that arose in the course of the bankruptcy proceedings with regard to tax and other mandatory payments;

(b) financial and other reports as prescribed by the legislation of the Republic of Armenia, in case of resumption of activity of the debtor.

6. Moratorium shall continue to apply till the closure of the given bankruptcy case.

#### Article 40. Permissibility of Certain Activities during Moratorium

1. Upon the request of an interested person, the court shall make a decision on allowing the performance of certain activities during moratorium, where:

(a) there is a need to provide equivalent protection;

(b) the given property is not subject to sale (realisation).

2. Upon the request of creditor or debtor, the court shall - during the moratorium - permit settlement of cross liabilities of the same type.

3. Settlement shall not be allowed, where:

(a) the claim against the debtor has been transferred to the creditor from another person, within 90 days prior to filing the bankruptcy application, and where the debtor has been insolvent during such period;

(b) the creditor assumed liability towards the debtor within 90 days prior to filing the bankruptcy application, with the purpose of settlement of the claim towards the debtor.

4. During the moratorium, on the day after receiving the request for permitting the performance of certain activities, the court shall forward copies of the request to the debtor and the Administrator, in case the request has been filed by the creditor; in case the request has been filed by the debtor (with the purpose of settlement of its counter liabilities with the creditor) or by the Administrator, the court shall forward copies of the request to the creditor (creditors) and the Administrator or the creditor and the debtor, respectively.

Where, the debtor (creditor) does not challenge in writing the filed request - within seven days after receiving the copy thereof - the judge shall, on the eighth day, make a decision without convening a court sitting on permitting the performance of certain activities during the moratorium.

Where - within seven days after receiving the copy of the request - the debtor (creditor) files a written objection with the court, the judge shall - on the day following the receipt of the objection - convene a court sitting - the date and venue of which shall properly be notified to the parties.

As a result of considering the objections, the court shall - on the same day - adopt a decision on permitting the performance of certain activities during the moratorium or reject the request.

## Article 41. Equivalent Protection

1. Equivalent protection shall be the permission to perform certain activities during moratorium, which is aimed at ensuring the security of claims in case of devaluation of the pledged property of the secured creditor.

Equivalent protection shall be provided in cases where, in the framework of financial recovery plan or resumption of activities of the debtor, it is necessary to make use of the collateral of the secured creditor.

2. Equivalent protection shall be effected (granted) in any form that will ensure the protection of the rights of a secured creditor. In particular, it may be effected as follows:

(a) cash payments made by the Administrator, in the amount of devaluation of the property;

(b) increase of collateral of the debtor or replacement thereof with more valuable property;

(c) total satisfaction of secured claims of creditor to the whole extent of the possible realisation price of the property (without payment of maintenance expenses and other administrative expenses).

3. The court shall, on the next day of receiving the application on provision of equivalent protection, send the copy of the application to the debtor.

Where the debtor does not challenge in writing the filed request - within seven days after receiving the copy thereof - the judge shall, on the eighth day, adopt a decision on provision of equivalent protection without convening a court sitting.

Where, within seven days after receiving the copy of the request, the debtor files a written objection with the court, the judge shall - on the day following the receipt of the objection - convene a court sitting, the date and venue of which shall be properly notified to the person filing the request and to the debtor.

As a result of considering the objections, the court shall - on the same day - adopt a decision on approving or rejecting provision of equivalent protection.

5. Equivalent protection may be provided only upon covering administrative expenses in full, except for the cases provided for by part 2(c) of this Article.

## Article 42. Registration and Assessment of Claims

The Administrator shall, in a register kept by the latter, register and assess the sizes and priorities of claims filed against the debtor. The requisites and the manner of maintaining the register of claims filed by creditors shall be defined by a government decision.

## Article 43. Secured Claims

1. Claims secured by pledged property of the debtor (including that owned by third parties) shall be deemed as secured claims. A creditor having secured claims (hereinafter referred to as "secured creditor") may demand immediate satisfaction of the claims thereof from the proceeds generated from the sale of the pledged property.

2. A secured creditor may not participate in distribution of proceeds generated from the sale of the unpledged property of the debtor prior to the sale of the pledged property, so far as the value of the collateral is higher or equal to the claim of the secured creditor, except for cases of providing equivalent protection upon the decision of court. Where the value (initial price) of the pledged property decreases against the amount of the secured claim during realisation at public auction or as a result of loss or

damage of the collateral, the secured creditor shall be entitled to a right of vote up to the size of that decrease.

3. Where the proceeds generated from the sale of the collateral are not sufficient to cover the secured claims in full, the unsatisfied part of the claim filed by the creditor shall be deemed as unsecured claim and the creditor shall be deemed as unsecured creditor to the extent of the unsecured claim. Where the proceeds from the sale of the collateral exceed the amount of the secured claim, the surplus amount shall be distributed in accordance with the sequence laid down by this Law, and where the collateral is a property of a third party, the surplus amount shall be transferred to the latter.

4. Where the market value of the collateral is equal to or less than the size of the claim of a secured creditor, the latter shall be entitled to acquire - upon a court decision - in the total or partial size of the claim, the ownership of the collateral in favour of own self or in favour of a person pointed out thereby through reimbursing maintenance and transfer costs of that property, as well as the remuneration of the Administrator in the amount of five percent of the value of the collateral. In such case, the size of the claim of the given creditor shall not be decreased by the amount paid for the maintenance costs of the property and remuneration of the Administrator.

5. Where property of a third person is pledged against the liabilities of a debtor, the given person shall be entitled to cancel the pledge of the property by transferring as deposit to the special bankruptcy account:

(a) costs pertaining to secured claim and to maintenance and transfer of the property, as well as remuneration of the Administrator in the amount of five percent of the secured claim, in case the estimated realisation price or initial price of the property exceeds the value of the principal secured liability;

(b) in case the estimated realisation price or initial price of the property is less than the value of the principal secured liability, an amount equal to the initial price offered at the latest invalidated auction.6. A third party pledgor shall have a right of claim against the debtor in the amount paid by him, which shall be subject to satisfaction as a claim defined by Article 82(1)(f) of this Law.

7. In case of fulfilment of liability by the guarantor or the guaranteeing person, as well as in case of satisfaction, by a third person, of creditor's claim in the manner prescribed by this Law for the purpose of discharging the debtor's liability, their claims against the debtor shall be satisfied in the queue wherein the satisfied claim is registered.

#### Article 44. Unsecured Claims

All claims not secured by a pledge or unsecured parts of secured claims shall be deemed unsecured claims, including the claims incurred after the judgment on declaring the debtor bankrupt has entered into legal force and current indirect tax liabilities related to the sale of the debtor's property, the priority whereof is laid down in Article 82(1) of this Law.

#### Article 45. Liabilities not Due

1. Within two months after the judgment on declaring the debtor bankrupt enters into legal force, upon the motion of the Administrator, contracts concluded by the debtor, which are not due and have not been completely performed by both parties, may be rescinded upon a court decision. When these contracts are not rescinded, they shall be in effect till the activities of the debtor are suspended.

2. In case of rescission of the contract, the party satisfied till the moment of rescission shall be obliged to compensate for the unpaid part at the price specified by the contract.

## Article 46. Approval of Claims

1. Creditors shall file their claims with the court within a one-month period after the announcement of bankruptcy.
2. The following shall be stated in the claim of the creditor:
  - (a) for the creditor filing a claim:
    - the name and the registered office of a legal person;
    - the name and the place of residence of a natural person;
  - (b) the liability wherefrom the claim derives, as well as the satisfaction period;
  - (c) the size of the claim by stating separately the amounts of the principal debt, losses, surcharge (fine, penalty) accompanied by corresponding calculations;
  - (d) circumstances substantiating the claim.

Substantiating documents shall be submitted attached to the claim.

The claim and the documents attached thereto shall be submitted in three copies.

3. The submission of the claim shall be registered with the court in the prescribed manner.
4. The court shall forward the claim and the documents attached thereto to the Administrator - not later than within one day after the registration of the claim - for the purpose of delivering a copy thereof to the debtor.
5. The Administrator shall include all the claims submitted within a period provided for by part 1 of this Article in the preliminary list of creditors' claims in accordance with the ranking of claims defined by Article 82 of this Law.
6. The Administrator shall submit the preliminary list of claims to the court, to the debtor and the five creditors with the largest claims - within a three-day period after the time limit defined for filing the claims - and shall publish it in printed media that publishes information on state registration of legal persons. When the Administrator, the debtor and the creditors do not file written objections against the preliminary list with the court within a seven-day period after the publication, the judge shall, without convening a sitting, adopt a decision on approving the list of claims (final list).
7. When - within seven days after the publication in printed media that publishes information on the state registration of legal persons - the Administrator, the debtor and the creditors file a written objection against the priority of the preliminary list of claims or against a claim of any of the creditors, the judge shall convene a court sitting - within seven days after receiving the objection - and shall notify the Administrator, the debtor and the creditors about the venue and the date thereof - at least three days prior to the sitting - by making an announcement in printed media that publishes information on the state registration of legal persons or by sending a notification.

8. As a result of considering the objections, the court shall determine the lawfulness, size, priority, security of the claim and adopt a decision on approving the final list of claims.

The decision on approving the final list of claims may be appealed.

9. The court shall forward new claims and amendments to claims - filed with the court after the court decision on approving the final list of creditors - to the Administrator. Within a three-day period after receiving a claim or an amendment to a claim, the Administrator shall send a copy thereof to the debtor, the creditors or shall publish concise information thereon in printed media that publishes information on state registration of legal persons.

If the Administrator, the debtor or the creditors do not file a written objection against the claim or the amendment to a claim with the court within seven days after receiving the copy of the amendment to a claim or after the publication of information in printed media that publishes information on state registration of legal persons, the Administrator shall register the claim or the amendment to a claim in the registry of claims in accordance with Article 85 of this Law.

10. When the claim or the amendment to a claim is objected, the judge shall convene a court sitting in the manner provided for by part 7 of this Article in order to determine the size, lawfulness, priority and security of the claim. The court shall notify the Administrator, the debtor and the creditors - at least three days prior to the sitting - about the venue and date of the sitting - by making an announcement in printed media that publishes information on state registration of legal persons or by sending a notification.

As a result of considering the objections, the court shall adopt a decision, which may be appealed.

## CHAPTER 7

### PROPERTY OF THE DEBTOR

#### Article 47. Property of the Debtor and its Disposal

1. The property of the debtor shall include any property, right or other asset belonging to the debtor, including any pieces of intellectual property, as well as any other property pledged by a third party to secure the proper fulfilment of liabilities by the debtor.

2. After declaring the debtor bankrupt and before adopting a decision on liquidation thereof, the executive of the debtor shall act upon the consent and under control of the Administrator. The executive of the debtor shall be prohibited to dispose of the property of the debtor or carry out any operation that creates liability in rem for the debtor without the permission of the Administrator.

3. The disposal of the property belonging to the debtor shall be carried out by the Administrator in the manner prescribed by this Law after the decision on liquidation of the debtor. After liquidation, the executive of the debtor shall be deprived of the rights to disposal and management of the property.

4. Any transaction entered into by the debtor in breach of the requirements referred to in parts 1 and 2 of this Article shall be void.

#### Article 48. Obligation of the Debtor to Cooperate

1. The governing bodies of the debtor shall be obliged to provide the Administrator with all the necessary documents and reliable information regarding the activity and assets of the debtor, as well as information on alienation of property or any other decrease in assets of the debtor during the three years preceding the declaration of the debtor as bankrupt.
2. The executive of the debtor, as well as persons with material responsibility shall bear the obligation of cooperation provided for by this Article till the closure of the bankruptcy case. In case of failure to fulfil this requirement, the persons concerned shall bear responsibility in the manner prescribed by the legislation.

#### Article 49. Utility Payments of the Debtor

1. Companies that provide utility services (electricity, natural gas, water, telephony, etc.) to the debtor may not refuse, reject, and cease to supply their services to the debtor for the reason of the latter being declared bankrupt by the court, if the debtor, after being declared bankrupt, regularly makes current payments for the mentioned services.
2. The existence of a debt generated before the debtor was declared bankrupt may not serve as a ground for the rescission of the contract on supply of utility services or termination of services.

#### Article 50. Contracts of the Debtor

1. Contractual obligations of property alienation may not be fulfilled from the moment the judgment on declaring the debtor bankrupt enters into legal force.

In exceptional cases, upon the motion of the Administrator, the fulfilment of the debtor's obligation of property alienation may be authorised by the court decision based on the peculiarities of the debtor's activities, property, transactions and other circumstances.

The court decision on property alienation may be appealed through appeal procedure.

Appealing against the court decision shall not suspend the alienation of property.

2. When a person having purchased the property of the debtor, has obtained ownership right to the property prior to the complete settlement of the sale amount, the transaction shall be deemed complete in case of fulfilment of his or her obligation in full within a ten-day period after receiving the request of the Administrator.
3. Employment contracts of the debtor shall be rescinded in the manner prescribed by the labour legislation of the Republic of Armenia.
4. The party to the contract may require compensation for the actual damage incurred as a result of early rescission of the contract by filing a claim in the manner prescribed by this Law.



5. Where regular payments (by the debtor) are provided for by the contract, the Administrator may fulfil them only after the list of claims and the ranking of claims defined by this Law are approved by the court.

(Article 50 amended by HO-48 of 5 February 2009)

#### Article 51. Property in Transit

1. When at the moment of registering the claim with respect to the property sold to the debtor by the creditor, the debtor has not obtained ownership rights, the creditor may recover or not deliver it. In such case all the expenses related to the recovery or non-delivery shall be incurred by the creditor, through also reimbursing the payments made by the debtor.

2. However, when the creditor delivers the property to the debtor or does not file a claim on recovering the property before registering the claim, its cash claim may be included in the list of general claims.

#### Article 52. Realisation of Property Belonging to Third Parties

1. When the debtor realises the property belonging to a third party or the property remains with it on other contractual basis (hereinafter referred to as the property belonging to third parties), from the moment the judgment on declaring the debtor bankrupt enters into legal force, the third party shall have the right to demand its property back from the debtor, unless otherwise provided for by the contract.

2. Where the return of property or part thereof belonging to third parties is not possible after the declaration of the debtor as bankrupt, as well as for the reason of the property being realised or if, as a result of return, its quality may deteriorate sharply (perishable goods, etc.), upon the request of the property owner, the claim thereof shall be included in the registry of claims at contract value of the property or at its market value in case of impossibility to determine the contract value.

3. The property belonging to third parties and pledged to secure the liabilities of the debtor shall be realised by the Administrator in the manner prescribed by this Law.

#### Article 53. Delivery of Professional Services

1. When - after declaring the debtor bankrupt - the other party of the contract agrees to accept the debtor's contractual obligations of delivering services, the debtor may provide those services under the control of the Administrator till the liquidation of the debtor.

2. Where the Administrator finds the fulfilment of contractual obligations provided for by part 1 of this Article as inappropriate, the demands resulting from those contracts shall be satisfied in the manner prescribed by this Law.

## Article 54. Transfers to Third Parties and Alienation of Property

1. Not later than within one year after filing a bankruptcy claim, the Administrator may apply for recovering the following through judicial procedure:

(a) non-refundable (including non-cash) transfers of the debtor to persons affiliated to the debtor that were made during the five years preceding the declaration of the debtor as bankrupt;

(b) non-refundable transfers of the debtor to any third parties that were made during the three years preceding the filing of a bankruptcy application;

(c) any transfer (including non-cash) made during the 90 days preceding the filing of the bankruptcy application (within one year where the transfer was made to an affiliated person) to the creditor or for the obligation previously assumed in favour of the latter, at the moment of which the debtor was insolvent and the creditor has received essentially more than it would receive in a bankruptcy proceeding, in case of liquidation of the debtor;

(d) the damage caused to the debtor as a consequence of transactions, transfers and alienations of property during the three years preceding the declaration of the debtor as bankrupt, which results from the difference between the realisation value of the property, service, work and the market value thereof at the time of performance of the transaction, except for the cases when the transaction has been concluded on the basis of public auction.

2. In cases provided for by point 1(c) of this Article, transferred property or its value may not be claimed back, where:

(a) the creditor transfers to the debtor other property of equivalent value, simultaneously with the transfer;

(b) after the fulfilment of the liability previously assumed by the debtor with respect to the creditor, the creditor has transferred to the debtor new property which is not a collateral;

(c) in the course of carrying out its regular activities the debtor has fulfilled the liability assumed with regard to the creditor during such period of time, if it has been fulfilled in compliance with good business practices;

(d) a liability not exceeding AMD200 000 assumed with regard to the creditor has been fulfilled through a transfer;

(e) contracts on the pledged property of the debtor, not resulting in the violation of the rights of unsecured creditors (as a result whereof the value of unsecured liabilities of the debtor will not exceed the value of property not encumbered by a pledge);

(f) liabilities in regard to taxes, duties and other mandatory payments, as well as payments for administrative fines have been discharged through transfer.

## Article 55. Maintenance and Realisation of Property Belonging to the Debtor

1. The Administrator shall take all the necessary measures to maintain the property belonging to the debtor.

2. Before the court approves the financial recovery plan of the debtor or adopts a decision on the liquidation thereof, the Administrator - upon a court decision and in the manner prescribed by the legislation of the Republic of Armenia - may sell through direct transaction only the following:

(a) perishable goods belonging to the debtor;

(b) property belonging to the debtor, requiring significant maintenance expenses. Significant maintenance expenses shall be considered those exceeding five percent a month of the value of that property.

Upon a recommendation of the Administrator and a court decision, the executive of the debtor may continue the realisation of the property, the supply of services and performance of works that are the results of the debtor's activities, until the suspension of the activities of the debtor, where the termination of such operations will result in distortion or termination of the activities of, or may incur other unfavourable consequences for the debtor. The restrictions for alienation of property provided for by this Law shall not apply to such cases of realisation.

3. Funds transferred to the special bankruptcy account of the debtor may be used for the maintenance of the debtor's property. When the funds transferred to the special bankruptcy account of the debtor are not sufficient for the maintenance of the debtor's property, the Administrator, upon permission of the court, may sell through direct transaction other property belonging to the debtor. The value of the property to be sold for this purpose may not exceed 10 percent of the value of the whole property belonging to the debtor.

4. Funds generated from transactions provided for by this Article shall be transferred to the special bankruptcy account of the debtor.

5. When the collateral is sold in cases provided for by part 2 of this Article, not more than five percent of the funds generated from the sale of such property and transferred to the special bankruptcy account of the debtor may be used for the maintenance of the debtor's property, and more than five percent - by the consent of the pledgee.

## Article 56. Inventory of Debtor's Property

1. Within 30 days after the judgment on declaring the debtor bankrupt enters into legal force, the Administrator shall make an inventory of the debtor's property. In case of large sizes of property or other valid reasons the court may extend the term of inventory by a reasonable period of time. Upon the request of the Administrator, relevant employees of the debtor shall be obliged to be present at and assist in the inventory.

The Administrator shall notify about the inventory of the debtor's property to the council, and, in case it is not formed, to the five known largest creditors. These persons may be present at the inventory works, but their failure to be present shall not be an impediment for carrying out the inventory.

2. Inventory shall cover the whole property belonging to the debtor, including unpaid works performed for and services provided to third parties, as well as items possessed by the debtor. The latter may not be alienated until the issue of ownership right thereto is clarified. The inventory documents shall contain the book value of the property (if known) at the moment of inventory.

3. Inventory results shall be summarised in the inventory report, which shall be signed by the Administrator and the debtor's representative participating in the inventory. The signature of the debtor's representative shall evidence his or her presence at the inventory and shall guarantee that the whole property belonging to the debtor has undergone inventory. When the debtor's representative disagrees with the results of inventory, he or she shall sign the inventory report and attach his or her written objection thereto.

#### Article 57. Appraisal of Debtor's Property

Appraisal of the debtor's property shall be carried out by the Administrator. The Administrator shall be entitled to invite an independent appraiser at the debtor's expense with a view to appraising the property belonging to the debtor, by informing the council thereon in advance, and in case it is not formed, to the five known largest creditors.

#### Article 58. Analysis of the Debtor's Financial Condition

Within 35 days after declaring the debtor bankrupt, the Administrator shall submit the analysis of the debtor's financial condition to the court. In case of diverse and large-scale activities of the debtor or other valid reasons, the court may extend the term of submitting the analysis of financial condition by a reasonable period of time. The analysis of the debtor's financial condition shall contain information on:

- (a) bankruptcy reasons, including information on the existence of fraudulent or intentional bankruptcy features;
- (b) sufficiency of debtor's assets for the compensation of court expenses and for the remuneration of the Administrator;
- (c) possibilities of restoring the debtor's solvency;
- (d) possibility of collecting accounts receivable of the debtor;
- (e) voidable transactions concluded by the debtor.

## CHAPTER 8

### FINANCIAL RECOVERY PLAN OF THE DEBTOR

#### Article 59. Financial Recovery Plan

1. The financial recovery plan is a complex of measures not proscribed by law and applied to the debtor for restoring the solvency thereof, as a result of which the debtor will not be liquidated or no judgment will be made on the closure of the bankruptcy case with respect to a natural person by releasing him or her from performing obligations.

2. The time period of the financial recovery plan may not exceed 24 months, unless its effective duration has been extended in the manner prescribed by this Law.

3. The following measures may be carried out within the framework of the financial recovery plan:

- (a) sale of the whole or part of the debtor's property;
- (b) transfer of the debtor's property to creditors through settlement;
- (c) pledging of debtor's property;
- (d) termination of unprofitable activities and change of sphere of entrepreneurial activity;
- (e) amendment or termination of unprofitable transactions;
- (f) debt restructuring (extending the terms for debt repayment, rescheduling, releasing from liabilities);
- (g) debt refunding through securities;
- (h) levy of execution on accounts receivable;
- (i) receiving a new loan;
- (j) undertaking new investments;
- (k) reorganisation of the debtor;
- (l) issuing new shares or buy-back;
- (m) other measures not proscribed by law.

## Article 60. Submitting the Financial Recovery Plan

1. Financial recovery plan may be submitted by the debtor, the Administrator, creditors holding at least one third of secured claims, creditors holding at least one third of unsecured claims, as well as persons holding at least one third of the statutory (share, equity) capital of the debtor.
2. The financial recovery plan shall be submitted prior to the first meeting. Upon the motion of the person entitled to submit the financial recovery plan, the court may extend the term of submitting the plan for another 30 days.
3. Expenses for the implementation of the financial recovery plan proposed by a creditor or by persons holding one third of the statutory (share, equity) capital of the debtor, and court expenses necessary for the approval thereof shall be incurred by the proposing party. The expenses of the financial recovery plan proposed by the Administrator or the debtor shall be covered at the account of the debtor's property.

## Article 61. Mandatory Conditions for the Financial Recovery Plan

1. The financial recovery plan shall include:
  - (a) the timeline on fulfilling liabilities with respect to secured, unsecured and other groups of creditors, the procedure of payments for their claims, including the procedure for satisfying claims through real estate or other property belonging to the debtor subject to state registration;
  - (b) the procedure for and the extent of exempting the debtor from obligations, postponing or rescheduling thereof;
  - (c) the content, procedure for and terms of implementing measures provided for by Article 59 of this Law for the restoration of the debtor's solvency; the justifications of increased possibilities for the satisfaction of the creditors' claims resulting from the implementation of these measures in case of continuing the activities of the debtor; the list of property to be sold in case of sale of the debtor's property;
  - (d) the procedure for and amounts of remuneration of the Administrator, other specialists, and the executive of the debtor, as well as compensation for administrative expenses necessary for carrying out the financial recovery plan.
2. The financial recovery plan may not provide for any ranking of creditors' claims other than that provided for by this Law. No creditor shall appear in less favourable conditions in the planned outcome of the financial recovery plan than it would have appeared in case of liquidation of the debtor.
3. The financial recovery plan may not conflict with the legislation of the Republic of Armenia and infringe the interests of other persons.
4. When - in the course of implementing the financial recovery plan - the property pledged for the claim of the secured creditor (creditors) is to be used, the consent of the secured creditor (creditors) shall be binding for the discussion or approval of the financial recovery plan.

5. Where receiving a new loan is provided for by the financial recovery plan, the consent of the potential lender - with regard to providing the loan - shall be binding for the approval of the plan concerned.

#### Article 62. Discussion of the Financial Recovery Plan

1. Within two days after receiving the financial recovery plan, the court shall adopt a decision on declining the discussion of the financial recovery plan, if it does not comply with the requirements prescribed by this Law. Before adopting a decision, the court may require from the person submitting the plan to present an expert's opinion thereon.

2. Where the court has not adopted a decision on declining the discussion of the financial recovery plan within two days after receiving the financial recovery plan, the court shall notify the Administrator, the debtor and all the creditors known to it about the availability of the financial recovery plan at the court and about their right to familiarise themselves with the plan.

3. The Administrator shall convene a meeting to discuss the financial recovery plan (plans) whereto the debtor shall be invited not later than within 20 days after the expiration of the date for submitting the financial recovery plan as specified by this Law or by a court decision on extension.

Information on convening the meeting shall be published in printed media that publishes information on state registration of legal persons by stating the name (title) of the person presenting the plan (plans) and the date of convening the meeting.

#### Article 63. Voting for the Financial Recovery Plan

1. In case of discussing more than one financial recovery plan, all the plans shall be voted for during one meeting.

2. Only those creditors with approved claims may take part in voting, except the creditors with secured claims, creditors with claims provided for by Article 82(1)(i) of this Law and creditors with claims for state and community budgets of the Republic of Armenia.

3. The financial recovery plan shall be deemed adopted when voted for by simple majority of creditors, whereon the meeting shall take a decision.

4. Where more than one plan is discussed, they shall be voted in accordance with the priority of submission. Pursuant to part 1 of this Article the remaining plans shall not be voted after the financial recovery plan was adopted.

(Article 63 amended by HO-246-N of 24 October 2007)

#### Article 64. Approval of the Financial Recovery Plan

1. The financial recovery plan shall be approved by a court decision in case of its adoption by the decision of the meeting and compliance with the requirements prescribed by this Law. Otherwise, the court shall adopt a decision on rejecting the financial recovery plan and on liquidation of the debtor.
2. Where new claims are filed with the court by the creditors after the approval of the financial recovery plan, a new financial recovery plan or amendments to the approved plan may be submitted to the court within a one-month period. The new financial recovery plan or amendments to the approved plan shall be submitted to the court and approved in the manner prescribed by this Law.

#### Article 65. Consequences of Approving the Financial Recovery Plan

1. After the approval of the financial recovery plan, the activities of the debtor shall be carried out only within the framework of the plan, and the claims of the creditors shall be satisfied in the manner prescribed by the plan.
2. Under the supervision of the Administrator, the debtor shall be obliged to implement all the measures provided for by the financial recovery plan.
3. During the effective duration of the financial recovery plan, the governing bodies of the debtor, including its executive, shall function within the scope of competences provided for by the financial recovery plan.
4. At least once in three months the Administrator shall submit a report to the court on the implementation of the measures provided for by the financial recovery plan.

#### Article 66. Extending the Duration of the Financial Recovery Plan

1. The Meeting of Creditors shall be entitled to consider the issue of extending the duration of the financial recovery plan for 12 months or on making amendments thereto.
2. The judge shall adopt a decision on extending the duration of the financial recovery plan for 12 months or on making amendments thereto, when such a decision has been adopted in accordance with the requirements prescribed by this Law for the adoption of the financial recovery plan.

#### Article 67. Early Completion of the Financial Recovery Plan

1. When the claims of creditors are satisfied prior to the expiry of the financial recovery plan, the Administrator shall submit a report to the court on early completion of the financial recovery plan. In case the report on early completion of the financial recovery plan is approved, the bankruptcy case shall be subject to closure.
2. Where the claims of creditors are not satisfied at the moment of submitting the report, the court shall reject the approval of the Administrator's report, and the financial recovery plan shall continue.



## Article 68. Early Termination of the Financial Recovery Plan

1. The court may early terminate the financial recovery plan. The grounds for early termination of the financial recovery plan shall be the following:

(a) essential breach of the schedule for the discharge of liabilities provided for by the financial recovery plan;

(b) existence of circumstances that evidence the incapability of the debtor to comply with the schedule for the discharge of liabilities;

(c) new claims have been submitted to the court after the approval of the financial recovery plan, while no amendments to the plan have been submitted within a one-month period providing satisfaction of the newly submitted claims, or such amendments have been submitted to court and rejected by a court decision.

2. The Administrator, the debtor, any of the five largest unsecured creditors, as well as the secured creditor (creditors) referred to in Article 61(4) of this Law, may apply to the court with the request for early termination of the financial recovery plan.

3. When there are grounds for early termination of the financial recovery plan the court shall early terminate the financial recovery plan and adopt a decision on liquidating the debtor. Otherwise, early termination of the financial recovery plan shall be rejected.

## Article 69. Completion of the Financial Recovery Plan

1. Not later than 15 days prior to the expiry of the financial recovery plan, the Administrator shall submit a report to the court on the completion of the financial recovery plan.

2. The following shall be attached to the report of the Administrator:

(a) the financial accounts of the debtor as of the most recent accounting period;

(b) the register of the creditors' claims, indicating the satisfied claims;

(c) documents verifying the satisfaction of creditors' claims.

3. Not later than within two weeks and not earlier than within one week after receiving the report on the completion of the financial recovery plan, the judge shall convene a sitting by notifying at least three days prior thereto to the Administrator, the debtor and the creditors.

When the number of creditors is more than ten, a proper notification for them shall be deemed the announcement on the venue and date of the sitting published in printed media that publishes information on state registration of legal persons. The notification for the five largest creditors shall be sent by a registered letter with advice of delivery or by other means of communication enabling formulation of communication or delivered with a receipt.

Failure to appear by the Administrator, the debtor or any of the creditors shall not be an impediment for holding the sitting.

4. As a result of considering the Administrator's report on the completion of the financial recovery plan and the creditors' objections regarding the completion of the financial recovery plan, the court shall:

(a) adopt a judgment on approving the Administrator's report on the completion of the financial recovery plan and closing the bankruptcy case, if the claims of creditors have been satisfied;

(b) adopt a decision on rejecting the approval of the Administrator's report on the completion of the financial recovery plan and liquidating the debtor, if the claims of the creditors have not been satisfied.

## CHAPTER 9

### PROCEEDINGS FOR THE LIQUIDATION OF LEGAL PERSONS AND TERMINATION OF ACTIVITIES OF DEBTOR INDIVIDUAL ENTREPRENEURS

Article 70. Proceedings for the liquidation of a debtor legal person and termination of activities of a debtor individual entrepreneur

1. In case of failure to submit a financial recovery plan within a period specified by this Law, rejection of approval of the submitted plan, early termination of the financial recovery plan, rejection of approval of the Administrator's report on the completion of the financial recovery plan, the court shall adopt a decision on initiating a proceeding for the liquidation of a debtor legal person or for the termination of activities of a debtor individual entrepreneur (hereinafter referred to as the "liquidation of the debtor").

2. Within a five-day period after the decision on the liquidation of the debtor is adopted, the Administrator shall publish the decision in printed media that publishes information on state registration of legal persons. The court shall forward a copy of the decision on liquidation of the debtor to the body carrying out state registration of legal persons for the purpose of making a relevant record.

3. After the publication of the decision on liquidation of the debtor, the Administrator shall sell the property of the debtor in the manner prescribed by this Law.

Article 71. Attachment of the Debtor's Property

1. Within seven days after the judge adopts a decision on liquidation of the debtor, the Administrator - based on a court decision - shall attach the property belonging to the debtor by the right of ownership, with the exception of property that may not be levied in execution pursuant to the legislation of the Republic of Armenia.

2. If the debtor owns property in other countries, the Administrator shall apply to the courts of those countries - through the Ministry of Justice of the Republic of Armenia - with an assignment on attaching such property in cases provided for by international treaties of the Republic of Armenia and pursuant to the decision of the relevant court of the Republic of

Armenia. Attachment of the property in other countries, which belongs to the debtor may only be carried out in the manner prescribed by the legislation of the county concerned.

#### Article 72. Suspension of the Debtor's Activities

1. Where the court has adopted a decision on the liquidation of the debtor, all the rights of the debtor to manage or dispose of the property shall be suspended by a court decision.
2. Upon the decision of the judge, the rights of the debtor to manage or dispose of the property may also be suspended prior to the liquidation of the debtor when the debtor's activity is evidently unprofitable or it may result in decrease of the property value belonging to the debtor, or it is obvious that the debtor is not able to submit a financial recovery plan acceptable for the creditors.

#### Article 73. Resumption of the Debtor's Activities

1. If the activities of the debtor have been suspended in the manner provided for by Article 72 of this Law, upon a court decision adopted upon the Administrator's motion, the debtor may fully or partially resume its activities for a period of up to one year, if the resumption of the debtor's activities may increase the possibility of satisfying the claims of creditors.
2. All the creditors shall be properly notified about the full or partial resumption of the debtor's activities.

If within seven days after being informed about the relevant decision of the court any of the creditors files a written objection with the court, the Administrator shall convene a sitting of the council or - in case the latter is not formed - a meeting to bring up the matter for consideration. The Administrator shall submit to the court the decision of the council and the minutes of the sitting together with his or her motion.

3. Without convening a court sitting the judge shall adopt a decision on satisfying or rejecting the motion.

The Administrator shall forward the decision of the judge to the creditors and relevant tax bodies within a three-day period.

#### Article 74. Administrator's Report in case of Resumption of the Debtor's Activities

1. Every month the Administrator shall be obliged to submit a report to the court regarding the resumed activities of the debtor.
2. The Administrator's reports shall be discussed quarterly in the Meeting of Creditors or in the Council.
3. Where, as a result of resumption of the debtor's activities, all the claims of the creditors are satisfied, the Administrator shall submit a final report to the court, containing a substantiated motion on the closure of the case. The final report of the Administrator shall contain summarised information on the collection of assets of the debtor. The final balance sheet of the debtor shall be attached to the report.

4. The following shall be attached to the debtor's final balance sheet to be submitted to the court:

(a) register of the creditors' claims with indication of the satisfied claims; and

(b) documents verifying the satisfaction of creditors' claims.

5. The Administrator shall notify all the creditors about submitting the final balance sheet and the report to the court and recommend them to familiarise themselves with the copy of those documents deposited with him or her within a ten-day period.

6. Within a period not later than 15 days and not earlier than 10 days after receiving the final balance sheet, the judge shall convene a sitting and notify the Administrator and creditors about it at least three days prior thereto.

When the number of creditors is more than ten, a proper notification for them shall be deemed the announcement on the venue and date of the sitting published in printed media that publishes information on state registration of legal persons.

Failure of any of the creditors to appear shall not be an impediment for holding the sitting.

7. By approving the final balance sheet the judge shall make a judgment on terminating the liquidation proceeding and closing the bankruptcy case against the debtor. Otherwise, the court shall reject the approval of the final balance sheet and the motion of closing the case by stating the reasons for rejection.

#### Article 75. Sale of the Debtor's Property

1. Sale of the debtor's property shall be carried out by the Administrator upon authorisation of the court through public auction or direct transaction.

2. Sale of the debtor's property shall be authorised only after initiating liquidation proceedings against the debtor except for the cases prescribed by this Law.

3. In case of approval of the financial recovery plan, sale of the debtor's property shall be carried out in the manner provided for by the plan.

4. The peculiarities of sale or alienation in another manner, hiring out or pledging of the property belonging to payment and settlement organisations shall be defined by the Law of the Republic of Armenia on Payment and Settlement Organisations and Payment and Settlement Systems.

#### Article 76. Sale of Property belonging to the Debtor through Public Auction in the course of Liquidation Process

1. The Administrator shall file with the court a motion on selling the debtor's property through public auction and notify to the creditors about it three days prior thereto in the manner prescribed by Article 34(1) of this Law. The motion shall indicate the location of the property, the description thereof, the initial price offered at auction, and the date of holding the auction.

The property appraisal report (or the opinion in case of appraisal by an independent appraiser) shall be submitted attached to the motion.

2. Within a seven-day period the creditors shall be entitled to file a written objection with the court against the Administrator's motion on authorising the sale of the debtor's property by public auction and to offer a higher initial price by making a deposit to the special bankruptcy account to the extent of five percent of the initial price offered by the Administrator for the property sale, which shall not be more than five million drams. A document verifying the payment of the deposit shall be attached to the objection. If more than one creditor has filed an objection, the realisation of the property through public auction shall be authorised at the highest initial price offered.

3. On the eighth day following the receipt of the Administrator's motion the court shall adopt one of the following decisions:

(a) on authorising the sale of the property by satisfying the Administrator's motion, unless any of the creditors has filed an objection with the court within the time limit and in the manner prescribed by part 2 of this Article;

(b) on authorising the sale of the property at the price offered by a creditor, by declining to satisfy the Administrator's motion, unless any of the creditors has filed an objection with the court within the time limit and in the manner prescribed by part 2 of this Article;

(c) on rejecting the Administrator's motion, if the Administrator has not observed the requirements prescribed by this Law.

4. When the debtor's property is not sold through public auction, an additional decision of the court on continuing the realisation of the property by the Administrator through public auction (double auction) shall not be required. When the sale of the debtor's property has been authorised at the price offered by a creditor and if it has not been sold, the amount of the deposit paid by the creditor shall not be returned.

Upon the Administrator's motion and by a court decision, the realisation of the property through public auction shall be interrupted where there have been sharp changes in the list of property to be sold (as compared to previous auctions), as well as in market prices.

The Administrator shall immediately inform the five largest creditors about the decision of the court on interrupting the realisation of the property through public auction.

If the realisation of the debtor's property through public auction is interrupted, it may be realised again through public auction by a court decision issued in the manner prescribed by parts 1 and 2 of this Article.

5. The Administrator shall publish an announcement on the sale of the debtor's property through public auction in printed media that publishes information on state registration of legal persons; the announcement shall also be posted in a specially designated place at the courthouse.

The Administrator may also publish information on the sale of the property belonging to the creditor through public auction by other means of mass media.

The sale of the property belonging to the debtor shall be arranged not earlier than 15 days after the last announcement by means of media, in the manner prescribed by law or other legal acts.

6. The procedure for holding public auction shall be defined by a Government decision.

## Article 77. Sale of Property belonging to the Debtor through Direct Transaction

1. Where the Administrator intends to sell the property belonging to the debtor through direct transaction, he or she shall convene a sitting of the council or - in case the latter has not been formed - a meeting to bring up the issue for consideration. The Administrator, together with his or her motion, shall submit to the court the decision of the council on approving or disapproving the Administrator's intention related to the direct transaction as well as the minutes of the sitting of the council. The motion shall indicate the location of the property, the description thereof, the selling price and the potential buyer.

Without convening a court sitting the judge shall adopt a decision on satisfying or rejecting the motion.

The judge shall reject the motion, where there is a decision of the council on disapproving the Administrator's intention related to direct transaction.

2. It is not mandatory to convene a sitting of the council, or a meeting - if the council has not been formed - for the sale through direct transaction of the debtor's property with a value not exceeding one percent of the property available at that moment, unless the value of the property to be sold is more than five million drams.

3. The sale of the property by direct transaction to a person affiliated with the Administrator or any of the creditors shall be prohibited.

## Article 78. Income Received from the Use of Property

Income received from the management and disposal of the property belonging to the debtor shall be transferred to the special bankruptcy account of the debtor and distributed among the creditors together with the proceeds generated from the sale of the property.

## Article 79. Transfer of Proceeds Generated from the Sale of the Debtor's Property

Proceeds generated (compensated) from the sale (alienation) of the debtor's property shall be transferred to the special bankruptcy account of the debtor, and the receipts shall be delivered to the Administrator.

## Article 80. Distribution of Proceeds Generated from the Sale of Property

The proceeds generated (compensated) from the sale (alienation) of property of the debtor shall be distributed pursuant to the ranking provided for by this Law in compliance with the intermediate distribution plan approved by the Administrator and accepted (unobjected) by creditors.

2. Expenses related to the maintenance and transfer of the property as well as remuneration for the Administrator shall be paid on a priority basis from the proceeds generated from the sale of property secured against the debtor's liabilities.

3. The Administrator shall submit two copies of the intermediate allocation plan approved by the Administrator to the court and furnish the debtor and creditors each with a copy. When there are more than ten creditors, the Administrator shall submit the allocation plan to the court with a motion on the deposit thereof and shall publish an announcement thereon in printed media publishing information on state registration of legal persons.

4. Where the creditors do not submit an objection in writing on the allocation plan to the court within seven days following the receipt of the copy of the allocation plan or the publication of the announcement, the allocation plan approved by the Administrator shall be deemed accepted by the creditors.

The judge shall return one copy of the allocation plan submitted by the Administrator to the Administrator with an indication thereon about not being objected within a period established by law and authenticated by his or her seal.

5. When - within seven days after receiving a copy of the allocation plan or after the publication of the announcement - the creditors file a written objection with the court against the allocation plan, the judge shall convene a court sitting - within seven days after receiving the objection - and shall notify the Administrator, the debtor and the creditors about the venue and the date thereof - at least three days prior to the sitting - by making an announcement in printed media publishing information on the state registration of legal persons or by sending a notification.

The notification for the five largest creditors shall be sent by a registered letter with advice of delivery or by other means of communication enabling formulation of communication or delivered with a receipt.

6. As a result of considering the objections, the court shall adopt a decision on upholding, on amending or on rejecting the intermediate allocation plan proposed by the Administrator.

#### Article 81. Report on Satisfaction of the Creditors' Claims

1. From the moment the decision on the liquidation of the debtor has been adopted, the Administrator shall submit a report to the court on the sale of the debtor's property, the distribution of proceeds from the sale, the satisfaction of the creditors' claims, as well as measures taken by the Administrator with respect to the collection of the debtor's property and assets (including accounts receivable).

2. Monthly report shall be submitted on or before the tenth day of the next month.

#### Article 82. Ranking in Satisfaction of Claims

1. Creditors' claims shall be satisfied pursuant to the following ranking:

(a) remuneration of the Administrator and administrative expenses, of which:

- expenses for the maintenance and disposal of the property;
- salaries for administrative employees;
- other administration costs;

- mandatory social payments, including mandatory social payments of the employer;
- costs for the archiving of documents related to salaries and social security payments;

(b) claims of citizens, to whom the debtor bears responsibility for inflicting injury to the life or the health - by way of capitalisation of the corresponding regular payments - as well as alimony claims (child, incapacitated parent, incapacitated spouse) against the debtor-citizen;

(c) claims deriving from employment contracts (including claims incurred within the period when the judgment on declaring the debtor bankrupt entered into force and up to the liquidation of the debtor) but not more than during six months preceding the moment of declaring the debtor bankrupt, payment of remuneration on copyright contracts and mandatory social payments deriving from the satisfaction of claims within this ranking;

(d) legal expenses;

(e) current indirect tax liabilities related to the sale of the debtor's property;

(f) unsecured claims, incurred from the moment the judgment on declaring the debtor bankrupt entered into legal force, as a result of operations (including the resumption of activity) carried out in the manner prescribed by this Law;

(g) claims of unsecured creditors, including liabilities incurred from tax payments, other mandatory payments, administrative fines with respect to the State Budget and community budgets of the Republic of Armenia except for claims of unsecured secondary creditors;

(h) claims of unsecured secondary creditors pursuant to Article 83 of this Law;

(i) claims of the debtor's founders (participants, shareholders, members or partners).

2. Payments made through capitalisation of regular payments related to injury provided for by part 1(b) of this Article, as well as alimonies for incapacitated parents and spouses shall be calculated until the citizen reaches the age of 70, but not less than for ten years; and child alimony shall be calculated until the child reaches adulthood. Where the citizen is more than 70 years old, the period of capitalisation of payments shall be of ten years. The amount capitalised for compensating the injury and alimony shall be paid in regular payments, or in a lump sum - in case of consent from the person entitled to compensation.

The Government shall establish the size and the manner of capitalising the amounts for compensation and payment thereof.

3. A secured claim shall be satisfied through proceeds generated from the realisation of the collateral.

4. Part 1(a) of this Article shall include claims of persons who have provided credits to or obtained bonds or bills of exchange from the debtor in the framework of implementing the financial recovery plan approved by the court, where such claim is not secured by pledged property pursuant to the financial recovery plan or is not granted satisfaction priority over the Administrator's remuneration and administrative costs.

(Article 82 amended by HO-246-N of 24 October 2007)



### Article 83. Secondary Unsecured Claims

The following shall be classified as secondary unsecured claims:

- (a) claims incurred from credits, loans or other investments granted to the debtor-legal person by its founders (participants, shareholders, members or partners);
- (b) claims deriving from bonds with a maturity period of ten years and more, subscribed by the debtor, as well as from preferred shares;
- (c) other salary-related claims;
- (d) other claims not provided for by Articles 82 and 83 of this Law.

### Article 84. Procedure for Satisfaction of Claims

1. In case the debtor's cash funds are insufficient, they shall be distributed among the creditors of relevant priority ranking in proportion to the amounts of claims subject to satisfaction.

The claims in each ranking shall be satisfied only after the claims in the previous ranking category were fully satisfied.

### Article 85. Satisfaction of Claims failed to be submitted to the Court within the Specified Period

1. Unsecured claims failed to be submitted to the court within the period specified in Article 46(1) shall be considered as secondary unsecured claims.

2. Claims of creditors not having submitted their claims within the specified period for valid reasons may be included in the ranking corresponding to the claim concerned. For determining the validity of reasons for not submitting the claim within the specified period, the judge shall convene a court sitting and shall properly notify about the date and venue thereof to the Administrator, debtor and creditors. In case there are more than ten people to be notified, a proper notification shall be deemed the announcement published in printed media publishing information on state registration of legal persons. As a result of considering the validity of reasons, the court shall adopt a decision, which may be appealed.

3. Claims defined by this Article shall not be subject to satisfaction if submitted after the satisfaction of all secondary unsecured claims.

### Article 86. Reserved Amounts

Upon the decision of the judge, funds may be reserved in the amount not exceeding five percent of the amount subject to distribution for the unsecured claims. The following may be satisfied from such reserved funds:

- (a) claims of creditors, which are disputable and have not yet been approved by the court;
- b) funds necessary for compensation of future expenses related to property maintenance.

## CHAPTER 10

### CLOSURE OF THE BANKRUPTCY CASE

#### Article 87. Closure of the Bankruptcy Case through Liquidation of the Debtor

1. Not later than after 15 days upon completion of settlement with the creditors, the Administrator shall submit the final report to the court.

2. The following shall be attached to the final report submitted to the court:

(a) documents verifying the sale of debtor's property;

(b) the register of the creditors' claims, indicating the satisfied claims;

(c) documents verifying the satisfaction of creditors' claims.

The final report of the Administrator shall include summarised information on the collection of debtor's assets and a substantiated motion on the closure of the bankruptcy case.

3. The Administrator shall notify all the creditors about submitting the final report to the court and recommend them to familiarise themselves with the copy of the report deposited with him or her within a ten-day period.

4. Within a period not later than 15 days and not earlier than 10 days after receiving the final report, the judge shall convene a sitting and notify the Administrator and creditors about it at least three days prior thereto.

When the number of creditors is more than ten, a proper notification for them shall be deemed the announcement on the venue and date of the sitting published in printed media that publishes information on state registration of legal persons.

Failure of any of the creditors to appear shall not be an impediment for holding the sitting.

5. After considering the final report, the judge shall render a judgment on closing the bankruptcy case as a result of debtor's liquidation or shall reject the motion on closing the case by stating the reasons for rejection.

6. Where the financial recovery plan is completed upon the liquidation of the debtor, it shall be completed in the manner prescribed by this Article.

#### Article 88. Duties of the Administrator in case of Closing the Bankruptcy Case as a result of the Debtor's Liquidation

1. Not later than within 45 days upon the entry into legal force of the judgment on closing the bankruptcy case as a result of the debtor's liquidation, the Administrator shall forward in good and due form the debtor's documents, subject to archiving by law and other legal acts, to the State Archive of the Republic of Armenia, as well as shall forward the stamp of the debtor in the

prescribed manner and carry out all the actions necessary for state registration of the liquidation of the debtor-legal person or termination of activities of the debtor-individual entrepreneur.

2. For the purpose of state registration of the liquidation of a debtor-legal person or termination of activities of a debtor-individual entrepreneur, the Administrator shall submit the following to the body performing state registration:

(a) an application;

(b) a copy of the court judgment on closure of the bankruptcy case as a result of liquidation of the debtor;

(c) a relevant document on handing over the seal;

(d) the state registration certificate;

(e) a document on forwarding the documents subject to archiving to the archive.

3. The Administrator shall bear liability in rem for the damage caused to third persons as a result of failure to perform the duties referred to in part 2 of this Article.

4. The Administrator's rights and duties as prescribed by this Law shall terminate starting from the moment when the liquidation of a debtor-legal person or termination of activities of a debtor-individual entrepreneur is registered at the body carrying out state registration of legal persons.

Article 89. Closure of the bankruptcy case in case creditors renounce the claims, submit no claims or their claims are satisfied

1. The bankruptcy case may be closed at any stage upon the Administrator's motion, when the claims of creditors have been satisfied (including through transfer of funds to the special bankruptcy account without any compensation by the founders, participants, shareholders and/or stakeholders for the performance of the debtor's obligations), or when the creditors have renounced their claims, or no claim has been submitted and as a result whereof the size of liabilities has decreased below the 500-fold of the minimum salary level.

The Administrator's final report and the final balance sheet shall be considered, and a judgment shall be rendered by the court in the manner prescribed by Article 74 of this Law.

2. Where within the meaning of this Article the closure of the bankruptcy case results in satisfaction of creditors' claims, and the Administrator has managed to collect assets exceeding the size of claims of creditors (collection of accounts receivable, recovery of the debtor's losses, discovery of the debtor's property disposed by other persons, recovery or indemnity thereof), the Administrator shall be awarded with gratuity in the amount of five percent of the part of collected assets that exceeds the size of registered (including renounced) claims of creditors.

## Article 90. Consequences of Closure of the Bankruptcy Case

1. The debtor-legal person shall be deemed liquidated, and the activity of the debtor-individual entrepreneur shall be deemed terminated from the moment of state registration provided for by Article 88 of this Law.
2. In case of closure of the bankruptcy case as provided for by Article 67(1), Article 69(4) (a), as well as by Articles 74 and 89 of this Law, the debtor shall be deemed as financially recovered and may proceed with its activities.

In such case suspensions provided for by Article 13(4) and (5) and Article 19(3) of this Law shall be eliminated from the moment of closure of the case. Meanwhile, the financially recovered person shall be exempt from all those liabilities deriving from the claims not having been submitted within the scope of the closed bankruptcy case, and such creditors shall be deprived of the right to submit claims in the future against the recovered person, with the exception of cases as provided for by parts 3 and 4 of this Article.

3. Where the bankruptcy case has been closed within six months from the moment of entry into legal force of the judgment on declaring bankrupt, the debtor shall not be exempt from all those liabilities deriving from the claims not having been submitted within the scope of the closed bankruptcy case.
4. The debtor may not be declared exempt from:
  - (a) alimony payments;
  - (b) payment of arrears hidden from tax authorities within one year preceding the moment of declaring bankrupt;
  - (c) liabilities arising from injuries inflicted to health and life;
  - (d) liabilities arising from compensation of damage caused by criminal offence.
5. The court judgment on closure of the bankruptcy case may be appealed.

## CHAPTER 11

### SPECIFICS OF BANKRUPTCY OF NATURAL PERSONS

#### Article 91. Regulation of Bankruptcy of Natural Persons

Relations pertaining to bankruptcy of natural persons shall be regulated by the provisions of this Law unless otherwise provided for by this Chapter.

#### Article 92. Application on Declaring a Natural Person Bankrupt

1. The application on declaring a natural person bankrupt may be submitted to court by the natural person concerned or by the representative thereof or by a creditor.

2. From the moment the judgment on declaring a natural person bankrupt enters into legal force the creditors with claims for alimony payments may file their claims with the court in the manner prescribed by this Law. The mentioned claims, if not submitted, shall remain valid after the closure of the bankruptcy case against the natural person.

#### Article 93. Examination of the Bankruptcy Case by the Court

1. Upon the judgment on declaring a natural person bankrupt, the court shall attach the property of the natural person concerned with the exception of property which may not be attached by virtue of law.

2. Upon the motion of the natural person, the court may lift attachment from the property (part of property) of the natural person in case third parties provide guarantee or any other security for the fulfilment of liabilities by the natural person.

The court shall lift attachment from property of the natural person when property with the value exceeding (by at least 30%) the liabilities of the debtor is pledged for securing the exemption of liabilities, a guarantee is provided or cash funds equivalent to the liability are deposited with the special bankruptcy account.

3. Upon the request of the natural person and with the consent of the known creditors, the court may postpone the examination of the bankruptcy case for a one-month period, for the natural person to make settlement payments or come to an amicable agreement with the creditors.

4. When information is available on the opening of inheritance in favour of the natural person, the bankruptcy case may be suspended by a court decision till the final solution of the inheritance issue in accordance with the procedure prescribed by law.

When the natural person declared as bankrupt avoids actions addressed to opening of inheritance, the Administrator may - instead of the latter - apply for the opening of inheritance.

The natural person declared bankrupt shall not be entitled to renounce inheritance. Where the natural person renounces the inheritance, the Administrator may accept inheritance instead.

5. Where the natural person does not furnish proof on satisfying creditors' claims within the time limits established by part 3 of this Article and has concluded no amicable agreement within the specified time, the court shall render a judgment on declaring the natural person bankrupt.

6. The publication of information on bankruptcy of a natural person shall be carried out by the latter when the application on declaring bankrupt has been filed by the natural person.

#### Article 94. Financial Recovery Plan of a Natural Person

1. Only the debtor may submit a financial recovery plan of a natural person.

2. The financial recovery plan of a natural person shall be approved by the court, when it complies with the requirements prescribed by this law. The maximum time period of the financial recovery plan of a natural person may not be more than four years.

3. The financial recovery plan of a natural person shall not be subject to voting by creditors.

4. The financial recovery plan may be challenged by a creditor (creditors), when:

(a) it does not comply with the requirements prescribed by this Law;

(b) the effective period of the plan is less than three years and (as a result of which) creditors do not receive full satisfaction of their claims.

5. Prior to the approval by the court of the financial recovery plan, the debtor may make amendments thereto, as well as extend or reduce the effective period of the financial recovery plan, change the procedure for making payments and other conditions.

#### Article 95. Property of the Debtor

1. Where the financial recovery plan of a natural person has been approved, the list of property belonging to the natural person and subject to sale shall include also the property, which he or she has acquired after the entry into legal force of the judgment on declaring bankrupt but before the closure of the case or occurrence of the event provided for by Article 68.

2. Where the financial recovery plan of a natural person has not been approved, the list of property belonging to the natural person and subject to sale shall not include the property acquired after the entry into legal force of the judgment on declaring the person bankrupt, with the exception of property inherited or subject to acquisition in case of opening of inheritance within the subsequent 180 days, as well as the property acquired as a result of a transaction concluded by the debtor prior to filing a bankruptcy application.

#### Article 96. Debtor's Property not subject to Realisation

1. The property of debtor, upon which levy in execution may not be enforced pursuant to the manner defined by the legislation of the Republic of Armenia, shall not be subject to realisation (alienation) with the purpose of satisfying the claims of creditors.

2. Upon the request of the debtor or other persons and upon a court decision, levy of execution need not be enforced against property of the debtor subject to levy of execution, the value of which cannot have significant influence on the satisfaction of creditors' claims.

#### Article 97. Releasing the Natural Person from Obligations

After the entry into legal force of the judgment on closing the bankruptcy case against a natural person by releasing the latter from the fulfilment of obligations, the natural person declared as bankrupt shall be released from the discharge of all cash liabilities, with the exception of the following:

(a) liabilities provided for by Article 90(3) of this Law;

(b) liabilities exceeding AMD 100 000 assumed within 90 days preceding the submission of a bankruptcy application;

(c) liability for repayment of a student loan;

(d) the amount equal to the value of hidden property in case the debtor hid the property from the claims of creditors in the course of bankruptcy proceedings.

#### Article 98. Termination of Powers of the Administrator

The powers of a bankruptcy administrator shall terminate after the entry into legal force of the judgment on closure of the bankruptcy case against a natural person.

#### Article 99. Limitation on Repeated Bankruptcy of a Natural Person

1. Within five years after the entry into legal force of the judgment on closing the bankruptcy case against a natural person by releasing the latter from the fulfilment of obligations the same natural person may not file an application on voluntary bankruptcy, and in case of submission thereof, such application shall be subject to rejection in the manner established by this Law.

2. Within five years after the entry into legal force of the judgment on closing the bankruptcy case against a natural person by releasing latter from the fulfilment of obligations, such natural person may not be a founder (participant) of a commercial organisation or a member to a cooperative, as well as may not be registered as an individual entrepreneur.

#### Article 100. Bankruptcy Specifics of an Individual Entrepreneur

1. Creditors of a natural person with claims against liabilities not related to the entrepreneurial activity, as well as creditors with other claims of personal nature shall also have the right to submit their claims within bankruptcy proceedings against the natural person.

2. The individual entrepreneur declared as bankrupt may not be registered as an individual entrepreneur within five years from the moment of state registration provided for by Article 88 of this Law, as well as may not be a founder (participant) of a commercial organisation or a member to a cooperative.

#### Article 101. Consequences of closing a bankruptcy case against a natural person; public register of natural persons declared as bankrupt

1. After the entry into legal force of the judgment on closing the bankruptcy case against a natural person by releasing the latter from the fulfilment of obligations, such natural person as well as persons affiliated therewith shall be considered - for a three-year period - as persons submitting declarations on their property and incomes. Within the meaning of this Article the following persons shall be considered as affiliated with the natural person:

(a) spouse, cohabitating parent, cohabitating adult and unmarried children of the natural person;

(b) cohabitating parent as well as cohabitating adult and unmarried siblings, in case the natural person is not married and has no children;

(c) cohabitating adult unmarried child and cohabitating parent, in case the natural person is married and has children.

2. Property and incomes (including operations and sources) subject to declaration, the form of the declaration, place, manner and terms for submitting the declaration, as well as the manner of providing information to creditors shall be defined by a Government decision.

## CHAPTER 12

### SIMPLIFIED BANKRUPTCY PROCEDURES

#### Article 102. Specifics of Examining the Case against a Debtor under Liquidation

1. Where the value of property of a debtor-legal person under liquidation is not sufficient to satisfy the claims of creditors, the legal person shall undergo liquidation in the manner prescribed by this Law.
2. Where the liquidation commission has undertaken all the measures prescribed by law for identifying creditors, the list of creditors submitted by the commission shall serve as a basis for the court to approve the final list of creditors' claims.
3. Where the clause provided for by part 1 of this Article is not observed, the creditors shall have the right to submit their claims against the debtor under liquidation within one month after the moment of publication of the announcement on declaring the debtor under liquidation as bankrupt. In that case the final list of creditors' claims shall be approved through the procedure prescribed by this Law.
4. The liquidation commission may not submit a financial recovery plan.
5. The powers of the liquidation commission shall terminate after the entry into legal force of the judgment on declaring the debtor under liquidation as bankrupt. The liquidation commission shall be obliged to transfer the whole property, accounting and other documents and the seal to the bankruptcy administrator.

#### Article 103. Bankruptcy of an Absentee Debtor

1. Where the debtor-natural person, debtor-individual entrepreneur having effectively terminated its activities or the executive of a debtor-legal person are absent and it is impossible to locate the place of residence or registered office thereof (hereinafter referred to as the "absent debtor"), the court shall - at its own initiative - announce a search for the debtor (executive of the debtor) and property, as well as accounting and other documents thereof.
2. After closure of the search procedure with respect to the absent debtor, where no representative of the debtor is identified, the court shall notify to the absent debtor at the most recent known address of place of residence or registered office thereof. Sending a notification to such address shall be sufficient for continuing the proceedings.
3. When the debtor does not dispute its bankruptcy in writing within a nine-day period upon sending of the notification, the judge shall - on the tenth day - render a judgment on declaring the absent debtor as bankrupt without convening a court sitting in case peculiarities such as provided for by Article 3(2) of this Law exist.



4. In case of identifying the absent debtor and/or the property thereof, upon the motion of the Administrator, the court may adopt a decision on terminating the simplified bankruptcy procedure and on proceeding to the general bankruptcy procedures.

#### Article 104. Specifics of Bankruptcy of Legal Persons not having undergone Re-registration

Legal persons, having failed to undergo re-registration in accordance with the requirements of legislation, and the time limit of re-registration whereof has expired at the moment of initiating the bankruptcy case, shall not be subject to financial recovery and shall undergo liquidation in the manner prescribed by Article 70 of this Law without the conditions of Article 70(1).

#### Article 105. Closure of a Bankruptcy Case upon Submission by the Administrator

1. At any stage of the bankruptcy proceeding upon submission by the Administrator or a creditor and with the consent of the board, the judge - without convening a court sitting - shall render a judgment on closure of the bankruptcy case, where:

(a) the debtor has no property;

(b) it is not possible to find the property of the debtor;

(c) the property of the debtor is of such small value, that further implementation of bankruptcy procedures is not reasonable;

(d) expenses to be incurred for finding the property or collecting assets of the debtor do not to justify the further implementation of bankruptcy procedures.

2. When the creditor (creditors) makes objections against the closure of the bankruptcy case, the bankruptcy case may proceed at the expense of the objecting creditor (creditors). In such cases the objecting creditor (creditors) shall be obliged to make a deposit to the special bankruptcy account in the amount specified by a court decision to cover the expenses related to the bankruptcy case.

## CHAPTER 13

### TRANSITIONAL AND FINAL PROVISIONS

#### Article 106. Transitional Provisions

1. Prior to the adoption of relevant Government decisions in a manner prescribed by this Law:

(a) temporary administrators and administrators shall be appointed by the court from the list of persons having a licence of a bankruptcy administrator, the insurance amount of civil liability whereof is not less than AMD 500,000;

(b) realisation of the debtor's property shall be carried out in the manner prescribed by the Law of the Republic of Armenia on Public Auctions;

(c) the monthly remuneration of bankruptcy administrators shall be paid upon a court decision, in the amount of 1/12 of the salary of the director (director general, executive) of the debtor. Upon the preliminary consent of the board (or the meeting, if the board is not formed) and the decision of the court, additional remuneration shall also be established for the Administrator at the rate of 10 percent of funds generated on the special bankruptcy account as a result of sale of property or collection of assets of the debtor (as well as from accounts receivable).

In case there is a court decision on establishing remuneration for the Administrator at the moment of entry into force of this Law, a new decision shall not be required.

2. Before the publication through the printed media that publishes information on state registration of legal persons, publications and notifications defined by this Law shall be published through media selected in the manner prescribed by the Law of the Republic of Armenia on Public Procurement, and where such media is not available, through printed media with a circulation of at least 1000 copies.

3. The requirement of Article 90(3) of this Law shall apply to debtors involved in cases that closed after the entry into force of this Law.

4. After 1 July 2007 there may be one self-regulatory organisation of administrators having received state registration. In case there is more than one self-regulatory organisation of administrators registered as of 1 July 2007 they shall be subject to merger by virtue of this Law. The founding meeting of merging self-regulatory organisations of administrators shall be convened and presided over by the Minister of Justice of the Republic of Armenia who shall conduct the meeting till the election of a chairperson of the self-regulatory organisation of administrators.

The founding meeting shall be entitled to commence its work in case at least half of the total number of members to self-regulatory organisations of administrators is present.

#### Article 107. Entry Into Force of the Law

1. This Law shall enter into force on the tenth day following its official publication.

2. Insolvency proceedings instituted prior to the entry into force of this Law in a prescribed manner and pending before the court shall continue in a manner prescribed herein.

3. The rules defined in Article 9(1) and Article 83(a) of this Law shall apply to the Republic of Armenia from 1 January 2010.

4. Upon the entry into force of this Law, the Law of the Republic of Armenia on Insolvency (Bankruptcy) HO-17-N of 17 December 2003 shall be repealed.

President of the Republic of Armenia

R. Kocharyan

22 January 2007

Yerevan

HO-51-N