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REPUBLIC OF KOREA

Special Rehabilitation Proceedings for MSMEs

Min HAN (Professor, Ewha Womans University Law School, Seoul, Korea)

Jaechul CHO (Public Prosecutor, Ministry of Justice of Korea)



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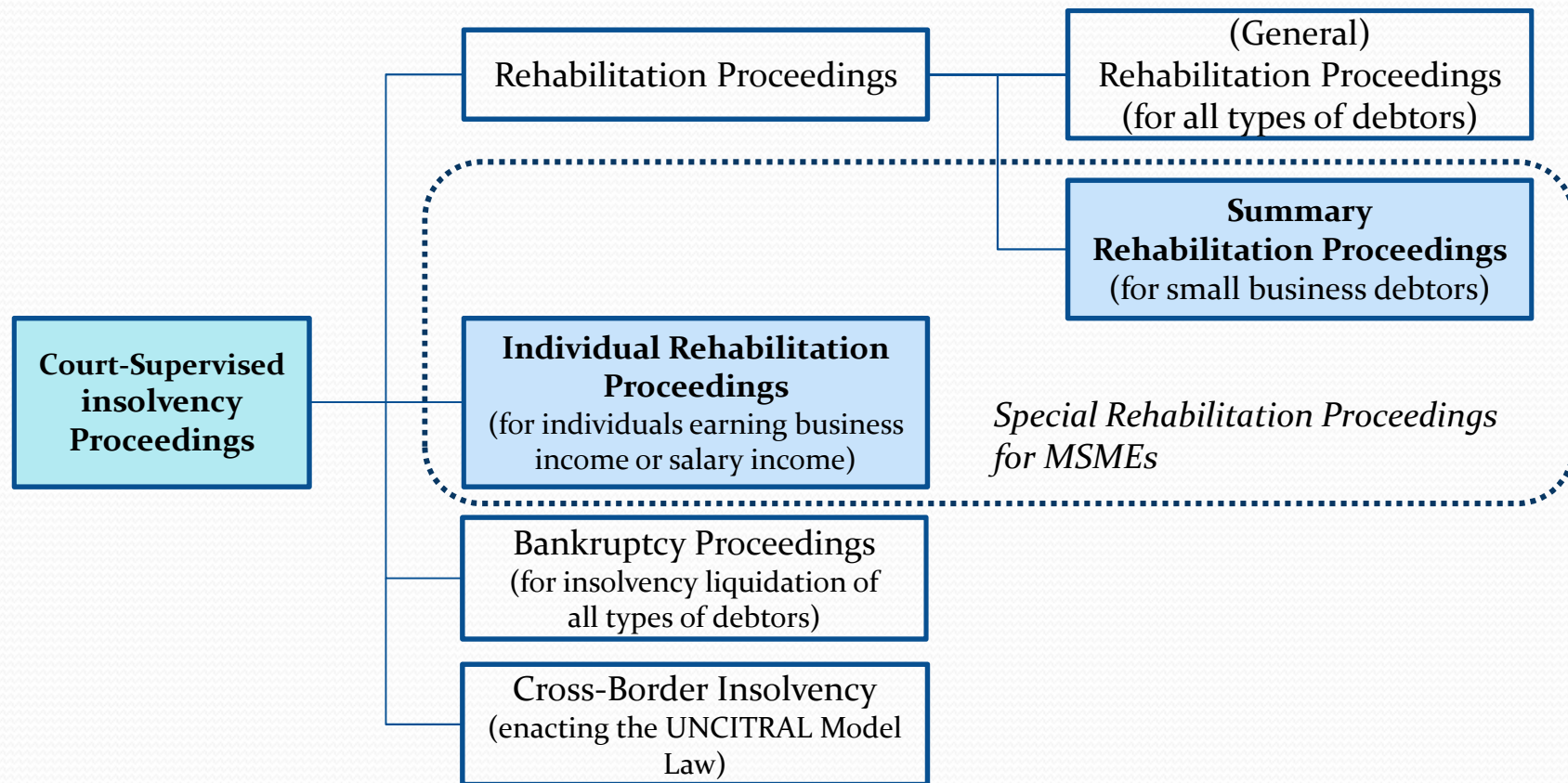
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I. Court-Supervised Insolvency Proceedings in Korea

- **Types of Insolvency Proceedings**




I. Court-Supervised Insolvency Proceedings in Korea

• Comparison of the Basic Structures

Proceedings	Eligible Debtors		Subject Claims/ Interests	Payment Period under the Plan	Voting on the Plan	Discharge
	Types	Maximum Debt				
(General) Rehabilitation Proceedings	all types of debtors (mainly for corporations)	N/A	secured claims / unsecured claims/ (if applicable) equity interests	up to 10 years (in principle)	Yes	effective upon court's approval of the plan
Summary Rehabilitation Proceedings	small business debtors (including corporations/ individuals)	KRW 3 billion (US\$ 3 M)	same as above			
Individual Rehabilitation Proceedings	individuals earning business income/salary income	<ul style="list-style-type: none"> secured debt: KRW 1 billion (US\$ 1 M) unsecured debt: KRW 500 million (US\$ 0.5 M) 	unsecured claims	up to 5 years	No	effective upon court's discharge order, in principle, after completion of payment under the plan
Bankruptcy Proceedings (insolvent liquidation)	all types of debtors	N/A	unsecured claims	N/A	N/A	(for individuals) effective upon court's discharge order

II. Individual Rehabilitation Proceedings

- Procedures and Statutory Timeline

Procedures		Statutory Timeline (* may be extended by the court with cause)
<i>Debtor's petition for commencement (including submission of the list of claims, among others)</i>		
<i>Appointment of the rehabilitation commissioner</i>		
<i>Court's preservation/stay orders</i>		
<i>Debtor's filing of draft plan</i>		<i>within 14 days from petition*</i>
<i>Court's commencement order</i>		<i>within 1 month from petition</i>
<i>Objection to the list of claims by the creditors</i>		<i>between 2 weeks ~ 2 months from commencement*</i>
<i>Creditors' meeting for briefing on, and objections to the plan (voting on the plan not required)</i>		<i>between 2 weeks ~ 1 month thereafter (no later than 3 months from commencement)*</i>
<i>Court's approval of the plan</i>		
<i>Payment under the plan (monitored by the rehabilitation commissioner)</i>		<i>no longer than 5 years from the first payment under the plan</i>
<i>Discharge of pre-commencement debts (except for certain specified categories of debts)</i>		<i>in principle, after completion of payment under the plan</i>

II. Individual Rehabilitation Proceedings

- **Rehabilitation Commissioner**
 - **appointed asap after the petition has been filed**
 - **duties: under supervision by the court**
 - examination of the debtor's property and income; administration of the creditors' meeting; participation in avoidance actions; recommendations to the debtor on the preparation of the plan; monitoring of the debtor's implementation of the plan, etc.
 - **for salary income earners:**
 - a qualified court official - no fee is payable
 - **for business income earners:**
 - an outside professional (e.g., an individual CPA) until court's approval of the plan - minimal fee
 - thereafter, a qualified court official - no fee is payable

III. Summary Rehabilitation Proceedings

- **Amendment of the DRBA in 2014 (Effective from July 1, 2015)**
- **Challenges for MSMEs pursuing rehabilitation**
 - limited availability of the Individual Rehabilitation Proceedings
 - burdens (heavier procedures and costs) in using the general Rehabilitation Proceedings
- **Legislative Purposes**
 - simplified and low-costs procedures
 - expanding the scope of the eligible MSMEs

III. Summary Rehabilitation Proceedings

- **Basic Structure common with Rehabilitation Proceedings + “Special Features”**
- **Special Features**
 - ***Eligible debtors***
 - debtors earning business income and owing small amount of debt (less than approximately US\$ 3 million)
 - no record of having obtained discharge within the past 5 years
 - Only the debtor is entitled to file a petition.
 - ***No appointment of a Trustee***
 - ***No creditors’ committee***

III. Summary Rehabilitation Proceedings


- ***Simplified examination procedures – reduction of time and costs***
 - examination of the debtor's business and property by the court-appointed examiner and the examiner's report thereon may be made in simplified form and substance.
 - for corporate MSMEs:
 - Usually, an individual CPA is appointed.
 - fees: approximately US\$ 3,000~ US\$ 5,000 (in case of general Rehab. Proceedings: US\$ 15,000~ US\$ 120,000)
 - for individual MSMEs:
 - Usually, a qualified court official is appointed.
 - No fee is payable.
- ***Relaxed requirement for creditors' acceptance of the plan***
- ***Conversion to a general Rehabilitation Proceeding***

III. Summary Rehabilitation Proceedings

- **Seoul Bankruptcy Court's Practice**
 - **Recent introduction of new bankruptcy court system**
 - The Seoul Bankruptcy Court: newly established on March 2, 2017 as the first specialized bankruptcy court in Korea
 - **Concentration of cases**
 - Rehabilitation Proceeding cases for corporate MSMEs are assigned exclusively to two specialized panels of judges.
 - **Parallel conduct of personal rehab. cases**
 - Personal rehabilitation cases for the owners/management of corporate MSMEs: conducted by a single judge belonging to the panel in charge of the Summary Rehabilitation Proceeding for such corporate MSME.

III. Summary Rehabilitation Proceedings

- Fast-Track Procedures applied by the Seoul Bankruptcy Court

Procedures		Timeline	
		Statutory (* may be extended by the court with cause)	Practice
<i>Petition for commencement</i>			D
<i>Preservation/stay orders</i>		no later than 7 days from petition	D ~ D+3
<i>Commencement order</i> (including the appointment of the examiner)		within 1 month from petition	~D+14
<i>Filing of schedules</i> (lists of claims and equity interests)		2 weeks ~ 2 months from commencement*	~D+28
<i>Reporting of claims by creditors</i> (if necessary)		1 week ~ 1 month from the last day for filing of schedules*	~D+35
<i>Verification of claims</i>		1 week ~ 1 month from the last day for reporting of claims*	~D+42
<i>Submission of examination report by the examiner</i>			~D+56
<i>Notification of material information to the interested parties</i>			~D+63
<i>Submission of draft plan</i>		no later than 4 months (or 2 months if the debtor is an individual) commencing from the last day for verification of claims*	~D+70
<i>Interested parties' meetings for deliberations and voting on the plan</i>		the plan must be accepted within 1 year from commencement* (extendable by up to 6 months)	~D+ 98
<i>Court's approval of the plan</i> (discharge being effective)		appealable within 14 days	~D+98
<i>Commencement of payment under the plan</i>			
<i>Court's conclusion order</i> (successful exit from the proceeding)			

IV. Statistics of the Recent Rehabilitation Proceeding Cases

- Entire rehabilitation cases

(Nation-wide; July 1, 2015 ~ March 31, 2017)

Proceedings	Debtors	Number of Petition
(General) Rehabilitation Proceedings	Corporations ※	1,153
	Individuals	932
Summary Rehabilitation Proceedings	Corporations (small business debtors)	472
	Individuals (small business debtors)	431
Individual Rehabilitation Proceedings	Individuals (business income)	14,973
	Individuals (salary income)	144,366
Total		162,327

※ The term "Corporations" used in this Chapter IV includes corporations and other juridical entities.

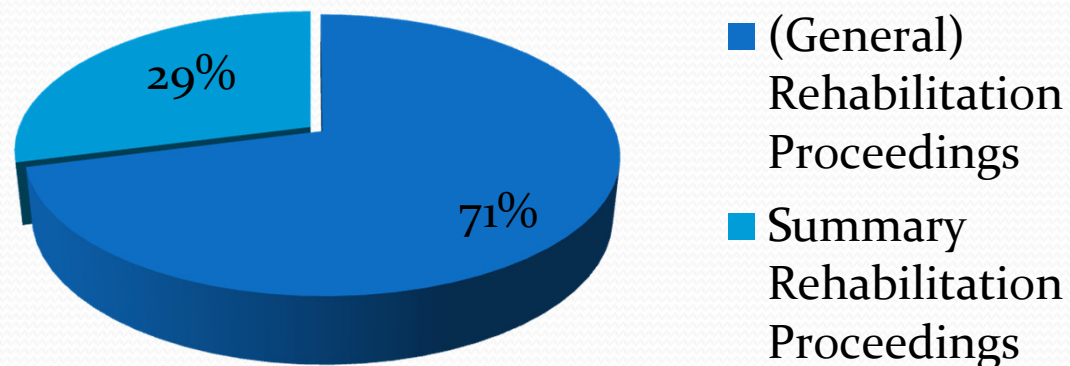
IV. Statistics of the Recent Rehabilitation Proceeding Cases

- Rehabilitation cases for corporations

(Nation-wide; July 1, 2015 ~ March 31, 2017)

Proceedings	Debtors	Proportion
(General) Rehabilitation Proceedings	Corporations	71% (1,153)
Summary Rehabilitation Proceedings	Corporations (small business debtors)	29% (472)
Total		100% (1,625)

The proportion of the Summary Rehabilitation Proceedings



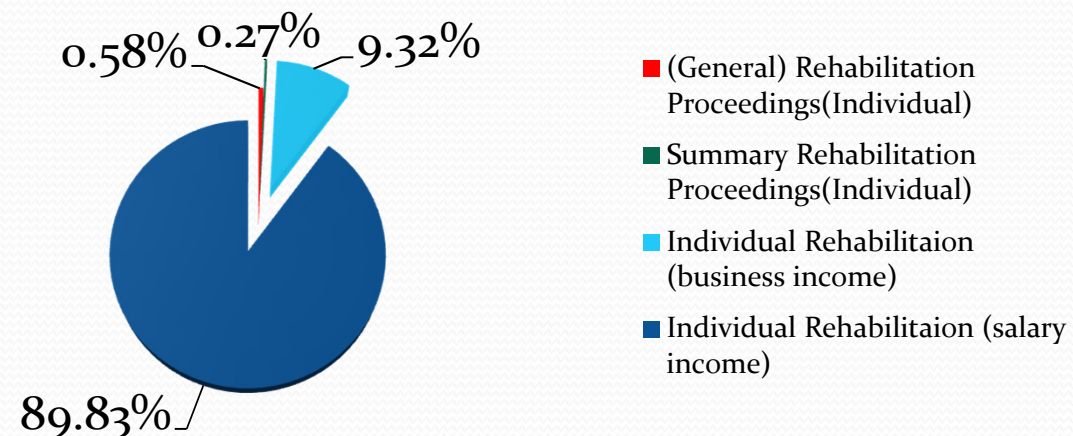
IV. Statistics of the Recent Rehabilitation Proceeding Cases

- Rehabilitation cases for individuals

(Nation-wide; July 1, 2015 ~ March 31, 2017)

Proceedings	Debtors	Proportion
(General) Rehabilitation Proceedings	Individuals	0.58% (932)
Summary Rehabilitation Proceedings	Individuals (small business debtors)	0.27% (431)
Individual Rehabilitation Proceedings	Individuals (business income)	9.32% (14,973)
	Individuals (salary income)	89.83% (144,366)
Total		100% (160,702)

Proportion of the rehabilitation cases for individuals



IV. Statistics of the Recent Rehabilitation Proceeding Cases

- Average period from petition until court's approval of the plan

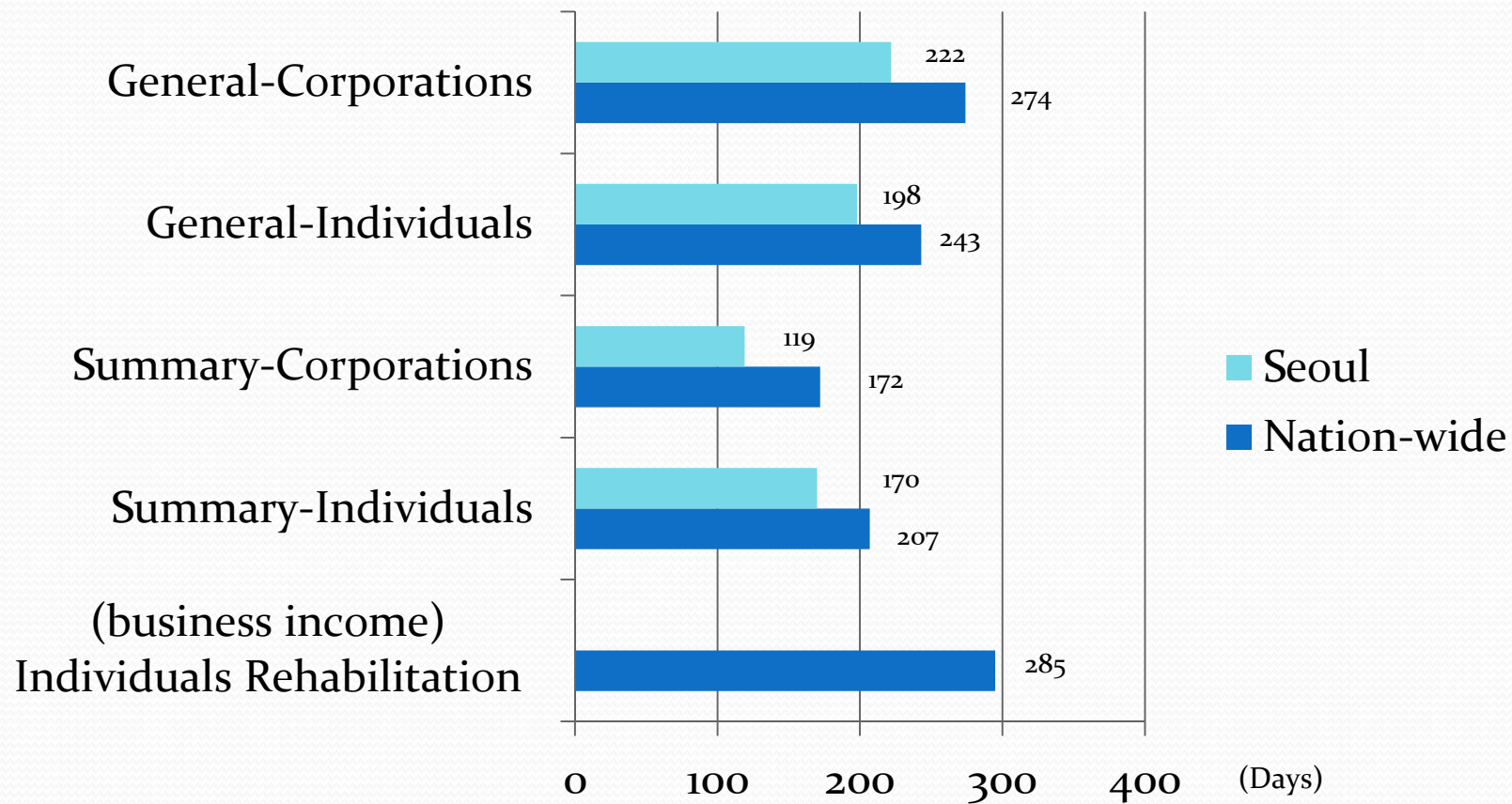
(Nation-wide; July 1, 2015 ~ March 31, 2017)

Proceedings	Debtors	Average periods from petition to court's approval of the plan
(General) Rehabilitation Proceedings	Corporations	274 days (Seoul: 222)
	Individuals	243 days (Seoul: 198)
Summary Rehabilitation Proceedings	Corporations	172 days (Seoul: 119)
	Individuals	207 days (Seoul: 170)
Individual Rehabilitation Proceedings	Individuals (business income)	285 days

※ "Seoul": based on the cases handled by the former Seoul Central District Court (July 1, 2015~ February 28, 2017) and the Seoul Bankruptcy Court (March 2, 2017 ~ March 31, 2017).

IV. Statistics of the Recent Rehabilitation Proceeding Cases

- Average period from petition until court's approval of the plan
(July 1, 2015 ~ March 31, 2017)



IV. Statistics of the Recent Rehabilitation Proceeding Cases

- Success rates of the commencement and plan approval/discharge

(Nation-wide; July 1, 2015 ~ March 31, 2017)

Proceedings	Debtors	Approximates rates of commencement (compared with the number of petitions)* ⁽¹⁾	Approximate rates of plan approval/discharge (compared with the number of commencements)
(General) Rehabilitation Proceedings	Corporations	67.1% (90.0%)	52.0%
	Individuals	70.0% (93.5%)	47.9%
Summary Rehabilitation Proceedings	Corporations	74.6% (91.9%)	50.4%
	Individuals	70.3% (94.2%)	46.9%
Individual Rehabilitation Proceedings	Individuals (business income)	82.8% (86.8%)	86.0% (plan approval rate) x 42.7% (estimated discharge rate) = 36.7% ^{*(2)}

* (1) If only the court's rejection on the merits is considered, the successful commencement rates increase as indicated in the parentheses.

* (2) "discharge rate" in the Individual Rehabilitation Proceedings is the average discharge rate of the plan-approved cases for both business income earners and salary income earners.

V. Concluding Remarks

- **Summary Rehabilitation Proceedings are streamlined, fast and low-cost procedures and are functioning well for rehabilitation of MSMEs (in particular, for corporate MSMEs) in financial distress and are being used extensively in practice.**
- **Substantial improvement of the insolvency law practice is expected by the establishment of the new specialized bankruptcy court system.**
- **On the occasion of 10th anniversary of the DRBA, overall improvements to the DRBA are under deliberation.**