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**Types of reorganization and liquidation of corporate structures
in Uzbekistan: types, discussion and recommendations.**

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Abstract

This thesis is devoted to a comprehensive analysis of the legal basis of the mechanisms of reorganization and liquidation of corporate structures in the Republic of Uzbekistan. The main goal of the research is an in-depth study of the processes of five types of reorganization (merger, acquisition, division, spin-off, transformation) and two types of liquidation (voluntary and through bankruptcy) in national legislation and their comparison with international best practices, such as the "Chapter 11" of the USA and the EU Reorganization Directive.

The results of the study showed that, although priority was given to rehabilitation (rehabilitation and external administration) institutions with the adoption of the Insolvency Law of 2022, international mechanisms in the field of creditors' protection and rehabilitation financing (DIP Financing) have not yet been fully implemented in the system of Uzbekistan.

Based on the research results, in order to eliminate legal gaps and increase investment attractiveness, specific recommendations were developed for the introduction of an automatic moratorium upon application, the legalization of the DIP Financing institute, and the implementation of a cross-class cram-down mechanism.

Introduction

1. Relevance of the research topic

The policy of market reforms and liberalization of the investment climate, implemented in the Republic of Uzbekistan in recent years, requires improvement of the legal framework of economic entities. The effective reorganization of corporate structures and the availability of transparent liquidation mechanisms for enterprises that do not meet market requirements or are insolvent are crucial for ensuring the country's business reputation, investor confidence, and free movement of capital. The clarity of the enterprise reorganization (merger, spin-off) system allows for the preservation of assets and the creation of jobs, while the speed of liquidation and bankruptcy processes is the main guarantee of protecting the rights of creditors.

However, some ambiguities in national legislation, in particular, the distribution of assets, the procedure for satisfying creditors' claims, and the incomplete implementation of financial recovery (rehabilitation) methods used in international practice, negatively affect the effectiveness of corporate governance in Uzbekistan. Therefore, it is extremely important to compare the current system of Uzbekistan with the best world practices (for example, the "Chapter 11" of the USA or the EU Restructuring Directive) and to develop scientifically based recommendations for its improvement.

2. Purpose of the study

The main goal of the research is a comprehensive analysis of the current legal mechanisms for the reorganization and liquidation of corporate structures in Uzbekistan, their comparative assessment with international standards, and the development of practical recommendations for bringing national legislation into line with the requirements of economic development.

- 3. Research objectives
- To achieve the set goal, the following main tasks have been identified:

- In-depth analysis of the legal procedures for five forms of reorganization (merger, acquisition, division, spin-off, transformation) based on the Civil Code of the Republic of Uzbekistan and the Law "On Insolvency" (2022).
- Study of the specifics of the processes of voluntary liquidation and bankruptcy liquidation of enterprises, as well as the priority of satisfying creditors' claims.
- Study of advanced foreign legal experience in the field of corporate reorganization and liquidation (for example, judicial rehabilitation models of developed countries) and identification of key differences.
- Identification of existing legal gaps and problems in practice in the system of Uzbekistan based on a comparative analysis.
- Formation of a system of recommendations aimed at eliminating identified shortcomings and strengthening investor protection.

4. Object and subject of research

- The object of the research is the processes of reorganization and liquidation of commercial corporate structures (LLCs, JSCs) in the Republic of Uzbekistan.
- The subject of the research is the legal norms and practical procedures for the reorganization and liquidation of corporate structures, enshrined in the Civil legislation of the Republic of Uzbekistan, the Law "On Insolvency" and other regulatory legal acts, as well as applied in judicial practice.

Results

2.1. Types and legal analysis of the reorganization of corporate structures in Uzbekistan

In accordance with the Civil Code of the Republic of Uzbekistan (CC), the reorganization of a legal entity is a process related to the transfer of its rights and obligations to other persons in the order of succession, which is carried out in five main forms:

2.1.1. Merger

Essence: When two or more legal entities cease their activities, a new legal entity is created in their place. Legal succession: All rights and obligations are transferred to the newly established legal entity on the basis of a Transfer Act (Civil Code, Article 50). Important aspect: A joint general meeting of founders (participants) or shareholders of the companies participating in the merger is held, the Charter of the new company is approved, and its governing bodies are elected.

2.1.2. Acquisition

Essence: One or more legal entities terminate their activities and transfer all their rights and obligations to another legal entity that is actually operating. Legal succession: All rights and obligations of the merging company, in accordance with the Transfer Act, are transferred to the receiving company (Civil Code, Article 51). **Important aspect:** Additions are made to the constituent documents of the receiving legal entity, its authorized capital is increased at the expense of the capital of the merging company. The company being acquired is liquidated.

2.1.3. Division

Essence: A legal entity completely ceases its activities, and in its place, two or more new legal entities are created that assume its rights and obligations. Legal succession: Rights and obligations are distributed among new legal entities based on the Separation Balance Sheet (Civil Code, Article 52).

Important point: if the separation balance sheet does not clearly indicate the procedure for inheritance, new legal entities will be jointly and severally liable for obligations to the creditors of the reorganized enterprise. This is an important legal guarantee aimed at strengthening the protection of creditors.

2.1.4. Separation

Essence: While the existing legal entity retains its activities, one or more new legal entities separate from its composition. Legal succession: Part of the rights and obligations of the parent company passes to the legal entities that are separating on the basis of the separation balance sheet (Civil Code, Article 53).

Important point: The parent society continues to function. This is often used to

diversify business directions or get rid of inefficient divisions. The procedure of joint and several liability for inaccuracies in the separation balance sheet, as in the case of division, also applies to the separating companies.

2.1.5. Transformation

Essence: The organizational and legal form of the legal entity is changed (for example, a Private Enterprise is transformed into an LLC, or an LLC into a JSC).
Legal succession: Without termination, all rights and obligations are transferred in full to the legal entity of the new form (Civil Code, Article 54).

Important aspect: The main goal is often to attract capital or adapt to legal requirements. In this case, only the constituent documents are updated, but the Transfer Act is not required, since succession is considered continuous.

2.1.6. Mechanisms of protecting the creditors

Protection of the rights of creditors in all types of reorganization processes is mandatory (Article 57 of the Civil Code):

1. **Notification:** From the date of the decision on reorganization, the legal entity is obliged to notify all creditors in writing.
2. **Right of claim:** Creditors have the right to demand early termination of obligations or provision of a guarantee from a legal entity within thirty days from the date of sending the notification of reorganization.

The restructuring system in Uzbekistan, in its forms, meets international standards, but its practical application, especially the processes of forming the separation balance sheet and coordinating it with antimonopoly bodies, remains complex.

2.2. Types and Procedures for the Liquidation of Corporate Structures

Liquidation of a legal entity (liquidation - liquidation) is the termination of its activities without the transfer of rights and obligations by succession to other persons. The legislation of Uzbekistan distinguishes two main types of liquidation: voluntary (out of court) and compulsory (through bankruptcy).

2.2.1. Voluntary liquidation

Basis: Decision of the founders (participants) or the authorized body of the legal entity. When applied: If the enterprise's assets are sufficient to satisfy all creditors' claims.

Main stages:

1. **Appointment of the Liquidation Commission:** From the moment the decision is made, all powers to manage the enterprise are transferred to the Liquidation Commission (or the liquidator).
2. **Notification of creditors:** The liquidator publishes an announcement of liquidation in the mass media. The period for creditors to lodge their claims must be at least 2 months.
3. **Audit and settlement:** The liquidation commission determines creditors and debtors, undergoes inspections on all taxes and mandatory payments.
4. **Interim and Final Liquidation Balance Sheet:** The Liquidator prepares reports on the satisfaction of creditors' claims and the distribution of the remaining property to the founders.
5. **Exclusion from state registration:** A record of the liquidation of a legal entity is entered in the State Register.

2.2.2. Compulsory liquidation (through bankruptcy)

This process is regulated by the Law "On Insolvency" (April 12, 2022) and is carried out only on the basis of a decision of the Economic Court. This is applied in cases where the enterprise is unable to fully satisfy creditors' claims.

Basic procedures:

The Law provides for several procedures within the framework of insolvency proceedings, aimed at both recovery and liquidation:

Type of procedure	Purpose	Duration	Essence
1. Observation	Determine whether there are grounds for preserving or liquidating the enterprise.	Up to 3 months	The temporary administrator, appointed by the court, analyzes the financial condition of the enterprise. The powers of governing bodies are retained, but limited.
2. Reorganization	Restoration of the enterprise's solvency.	Up to 24 months (The total term with external management should not exceed 36 months)	Financial assistance is provided by third parties (founders or creditors).
3. External management	Restoration of the enterprise's solvency.	Up to 24 months	Transfer of management powers to the External Manager. A moratorium on satisfying creditors' claims will be declared.

4.Liquidation proceedings	Liquidation of a legal entity declared bankrupt and satisfaction of creditors' claims.	Up to 12 months	The property of the enterprise will be sold. A liquidation manager will be appointed.
5. Settlement Agreement	Agreement between creditors and the debtor at any stage of the case.	—	Regardless of the restoration of the debtor's solvency, the case is terminated.

Queue for satisfying creditors' claims during liquidation:

The Law establishes a strict priority for satisfying creditors' claims (in liquidation proceedings). This sequence is analogous to international practice, where, first of all, vital requirements are met:

- **First priority:** Claims arising from the payment of wages to citizens under an employment contract and remuneration under copyright agreements, as well as liability for harm caused to life or health.
- **Second priority:** Expenses related to bankruptcy proceedings.
- **Third priority:** Mandatory payments to the budget and extra-budgetary funds (taxes).
- **Fourth priority:** Claims of all other creditors.

Uzbekistan's insolvency system focuses heavily on rehabilitation procedures (Rehabilitation, External Management), which is a significant step forward

compared to the old system focused solely on liquidation. However, the uncertainty of the duration of the moratorium on external administration (in practice) and the lack of rehabilitation funds reduce the effectiveness of these mechanisms.

Discussion

2.3. International Best Practices in Corporate Reorganization and Liquidation

2.3.1. US model: "Chapter 11" (Aimed at Restructuring)

The "Chapter 11" procedure (Real-time restructuring model) in US bankruptcy legislation is one of the most effective systems in the world aimed at preserving rather than liquidating bankrupt but viable enterprises.

- **Essence:** In "Chapter 11," the management of the enterprise remains in its position and, under judicial supervision ("Debtor in Possession" - DIP), develops and implements a restructuring plan. In this case, the daily activity of the enterprise continues uninterrupted.
- **Automatic Stay:** Upon submission of the application, all claims of creditors against the enterprise and actions for the recovery of property are automatically terminated. This will allow the enterprise to "breathe" to restore its activities.
- **New Financing:** DIP status allows the enterprise to attract preferential loans (DIP Financing), these new loans are repaid in a higher priority than old, secure loans. This will encourage investors to invest in the restructuring process.

2.3.2. EU Reorganization Directive (2019)

The main goal of the EU Directive 2019 is to coordinate corporate restructuring processes at the European level and introduce a rescue culture.

- It obliges member states to use early detection and restructuring tools without leading companies to liquidation in the early stages of insolvency.
- **Creditors' Classes:** When making a decision on the restructuring plan, creditors are divided into different classes (for example, secured, unsecured). With the consent of the majority of creditors, the plan can be adopted, and

even for some opposing classes (Cross-class cram-down) the plan can be applied as a mandatory one.

2.4. Comparative discussion of the system of Uzbekistan with international experience

Although Uzbekistan's 2022 Insolvency Law (ILA) has taken a major step in the direction of rehabilitation through the introduction of rehabilitation and external management institutions, there are the following important differences compared to Chapter 11 and the EU Directive:

Mechanism	Republic of Uzbekistan (RCC, 2022)	US/EU models
Referral to Rehabilitation	Rehabilitation and External Management are available. In practice, a more complete deviation is observed.	"Chapter 11" is prioritized over liquidation; the goal is to preserve economic value.
Auto Moratorium	Only when external administration is introduced, that is, in the middle of the judicial process.	It starts automatically as soon as the application is submitted, which provides the enterprise with maximum protection.

"DIP Financing"	In the Law "On Insolvency", there is a mechanism for third parties to fulfill the debtor's obligations in the external administration process, but the institution of DIP-loan (preferential new financing) is not clearly defined.	Clear and strictly regulated; the main means of attracting funds for rehabilitation.
Creditor's approval	The decision of the general meeting of creditors is important.	There is a "cross-class cram-down" mechanism: the court can approve the restructuring plan despite the opposition of certain groups of creditors. In Uzbekistan, there is no such mechanism.
Reorganization plan	The plan is drawn up by the external manager.	The plan is often drawn up by the company's own management (DIP), which increases management's motivation to preserve themselves.

In the current system of Uzbekistan, the role of the courts and administrators in resolving insolvency issues is central. However, the main feature of such models as "Chapter 11" is the insufficient development of mechanisms for accelerated and preferential financing of restructuring and balancing the interests of creditors. This, in particular, limits the possibilities of preserving large industrial enterprises.

Conclusion

3.1. Main conclusions of the research

This study, devoted to the mechanisms of reorganization and liquidation of corporate structures in Uzbekistan, led to the following main conclusions:

1. **The existence of forms of reorganization:** The Civil Code of Uzbekistan recognizes all five classical forms of reorganization (merger, acquisition, division, spin-off, transformation) and establishes the procedure for their legal succession. This meets the requirements of a market economy.
2. **Attention to rehabilitation:** The main achievement of the new Law "On Insolvency," adopted in 2022, is the clear priority given to rehabilitation procedures such as rehabilitation and external administration. This is a progressive step towards abandoning the old system, aimed only at elimination.
3. **Disadvantages of Protection Mechanisms:** A comparative analysis showed that the national system lacks two key elements that are present in models such as "Chapter 11":
 - The non-application of the "Automatic Moratorium" at the very beginning of the judicial process (starting only with external management) limits the possibility of promptly protecting enterprises from creditors' claims.
 - The lack of a clear legal basis for the institution of financing DIP (Debtor in Possession), i.e., a new mechanism for preferential lending for the restructuring process, hinders the attraction of investment for rehabilitation.

4. **The complexity of antimonopoly control:** The complexity and lengthy nature of the procedures for obtaining prior consent from the Antimonopoly Committee for the merger and acquisition of large enterprises hinders the processes of corporate transformation.

3.2. Recommendations for improving legislation

Based on the research results and best international practices, the following recommendations have been developed for improving the corporate restructuring and liquidation system in Uzbekistan:

1. Strengthening Rehabilitation Encouragement Mechanisms:

- **Introduction of an automatic moratorium:** Introduction into the Law "On Insolvency" of a rule on the introduction of an automatic and immediate moratorium (without waiting for the beginning of external administration) on the satisfaction of all creditors' claims from the date of receipt of the debtor's application by the court. This gives the management of the enterprise time and peace to prepare a restructuring plan.
- **Legalization of the "DIP Financing" Institute:** Introduce norms that clearly regulate the priority of new loans (DIP Financing) attracted in the process of restructuring in order to satisfy creditors' claims. This will encourage investors (including old creditors) to invest in rehabilitation.

2. Simplify reorganization process:

- **Implementation of the "Cross-class Cram-down" Mechanism:** Based on the experience of the EU Directive, if the restructuring plan is approved by the majority of creditors (for example, 75%), granting the Court the right to mandatorily approve this plan, protecting the interests of a specific class of challenging creditors. This prevents disruption of the rehabilitation process through the efforts of a small number of creditors.
- **Optimization of Antimonopoly Control in Mergers and Acquisitions:** Changing the notification procedure for obtaining the prior consent of the Antimonopoly Committee if the total assets or income of the participants in the reorganization (merger/acquisition) do not exceed the established limit, or if this process is carried out to prevent insolvency.

3. Increasing transparency and professionalism:

- **Strengthening the qualifications of liquidation managers:** Strengthening the requirements for professionalism and experience in the appointment of liquidation and external managers. Strengthening control over the actions of managers and increasing their responsibility.
- **Development of the electronic system:** Full digitalization of all stages of the liquidation process, including notification of creditors, acceptance of claims, and sale of property (through electronic auctions), will increase the transparency and speed of this process.

The implementation of these recommendations will serve to strengthen the legal basis of corporate relations in Uzbekistan, improve the system of protection of investors' rights, and ensure the stability of the economy in a state of insolvency.



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