



# Financial settlement rules According to UAE Law No. 19 of 2019

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## ABSTRACT:

Insolvency is that the debtor is facing current or expected financial difficulties, so that the debtor does not settle his debts and pay his obligations, this legal system applies to ordinary individuals, so the insolvency system does not extend to merchants. The procedural system of state orders in general is based on the non-necessity of judicial declaration, the non-necessity of pleading, the non-necessity of a confrontation between the litigants and respect for the rights of the defense. The court's decision to accept the debtor's request to settle his financial obligations is to stop the creditor's right to request execution on the debtor's funds or to request opening procedures for his insolvency and liquidation of his funds.

**Keywords:** Insolvency - Financial difficulties - Financial settlement request - Cessation of insolvency procedures

**DOI Number:** 10.48047/nq.2023.21.7.nq23032

**NeuroQuantology2023;21(7):352-358**

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bankruptcy law applies to the merchant debtor, whether he is a natural person or not. moral. However, both laws agree on the need to protect the common interests of both the creditor and the debtor in a fair manner so that the risks are divided between them, and thus remove the debtor from the circle of financial difficulties and enable him to pay his debts.

This law also aims to protect members of society from legal prosecutions due to the inability to pay debts, so that they are protected from legal liability and given an opportunity to work to pay off their financial obligations. The provisions of the UAE Insolvency Law No. 19 of 2019 are in accordance with the provisions and rules of Islamic law, including the "facilitated view" rule, which gives the debtor a deadline to implement its financial obligations according to certain conditions, and that this postponement does not cause serious harm to the creditor.

**The scope of application of the Insolvency Law No. 19 of 2019:**

eISSN1303-5150

## 1. INTRODUCTION:

The UAE legislator issued Federal Decree Law No. 19 of 2019 regarding insolvency on August 29, 2019, which entered into force as of January 2020 to facilitate community members who face financial difficulties by reviewing their financial obligations and allowing them to borrow again according to easy conditions. Thus, ensuring the protection of people who are unable to pay their debts and financial obligations, overcoming financial risks, and limiting financial defaults. Insolvency is that the debtor is facing current or expected financial difficulties, so that the debtor does not settle his debts and pay his obligations, this legal system applies to ordinary individuals, so the insolvency system does not extend to merchants.

The civil insolvency law differs from the UAE Bankruptcy Law No. 9 of 2016 in terms of the personal scope of application of the law. The civil insolvency law applies to a natural person who does not carry out an economic activity and is not considered a merchant, while the provision of the

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submit a request for settlement of financial obligations that every debtor has the right to submit a request to the competent court, in order to settle his financial obligations, as the debtor is the only person who has a direct interest in submitting a request for financial settlement. Also, the debtor's attorney may submit this request, at the same level as a public or private power of attorney. Despite the seriousness and importance of the effects of submitting this request, Article 3 of Law No. 19 of 2019 did not require a special power of attorney to submit financial settlement requests, so the debtor's lawyer may submit This request is even if the power of attorney is general and not private.

The debtor submits a request to settle his financial obligations without arguing with anyone, which means that the debtor does not undertake all the procedural duties related to the judicial process, for example, not announcing the request to others, and assigning them to attend the session specified to examine this request, and that the court does not respect the principle of confrontation between the litigants and Defense rights.

#### **Attachments to the settlement request:**

Article 3 of the UAE Insolvency Law No. 19 of 2019 specifies the papers and documents that the debtor must attach with his request for a financial settlement of its obligations, which are:

- 1- A memorandum that includes a brief description of his financial position and any data related to his sources of income inside or outside the UAE, his job status, expectations of the debtor's cash liquidity and the sources of this liquidity during the 12-month period following the submission of the application.
- 2- Details of the names and addresses of the creditors whose debts the debtor has been unable to pay or is expected to be unable to pay, the amount of the debt of each of them, the dates of its maturity and the guarantees provided for that. The debtor is obligated to submit the data of creditors who have outstanding debts and debts whose due date has not expired, provided that the debtor is unable to pay them. In the case of future debts, the debtor has to state the date of

Article 2 of this federal law affirmed that "the provisions of this decree-law shall apply to debtors who are not subject to Federal Law No. 9 of 2016 regarding bankruptcy."

In application of the provisions of Article 2 of Law No. 9 of 2016 regarding bankruptcy, "the provisions of this Decree-Law shall apply to the following:

- 1- Companies subject to the provisions of the Commercial Companies Law
- 2- Companies that were not established in accordance with the Commercial Companies Law and are wholly or partially owned by the federal or local government and whose establishment legislation, articles of association or articles of association provide that they are subject to the provisions of this Decree-Law.
- 3- Companies and institutions in free zones that are not subject to special provisions regulating the procedures for preventive reconciliation or restructuring and bankruptcy therein, while respecting the provisions of Federal Law No. 8 of 2004 regarding financial free zones.
- 4- Any person who enjoys the status of a merchant in accordance with the provisions of the law
- 5- Licensed civil companies of a professional nature.

This means that the provisions of the Civil Insolvency Law do not apply to two categories: The first category - the category of companies, whether companies that are subject to Commercial Companies Law No. 2 of 2015, companies owned wholly or partially by the federal or local government, companies and institutions affiliated with the free zones system, and licensed civil companies of a professional nature.

The second category - the category of natural persons who enjoy the status of a merchant in accordance with the conditions specified by the relevant law.

#### **Financial settlement request:**

##### **Submit a settlement request:**

Article 3 of the Civil Insolvency Law No. 19 of 2019 specifies the person who has a direct interest to



UAE legislature within the scope of legal regulation of state orders.

Moreover, the announcement and pleading procedures take a long time, which is inconsistent with the nature of financial settlement requests, which are based on speedy completion as soon as possible. Therefore, the UAE legislator did well by explicitly stating that there is no need for declaration and pleading within the scope of financial settlement requests. On the other hand, the court shall decide on the settlement request within a period not exceeding 5 working days, to be calculated from the date of submission of the request.

**Issuance of the settlement decision:** According to the text of Article 7/2 of the UAE Insolvency Law, if the competent court decides to accept the request submitted by the debtor, it issues a decision to open procedures for settling financial obligations. The consequence of the court's acceptance of the debtor's request is the issuance of a decision to open procedures for settling financial obligations. If the court rejects the debtor's request, it does not issue a decision to open settlement procedures.

The court's decision to accept the debtor's request to settle his financial obligations is to stop the creditor's right to request execution on the debtor's funds or to request opening procedures for his insolvency and liquidation of his funds. This suspension continues until the procedures for settling the debtor's financial obligations are completed (Article 3/7 of the UAE Insolvency Law), It is not permissible to proceed with compulsory execution procedures on the debtor's funds as long as the competent court issues a decision for financial settlement, which is the same effect that results from requests to proceed with insolvency procedures and liquidate the debtor's funds, which means that the UAE legislator submits the judicial decision to settle the compulsory execution procedures, insolvency procedures and liquidation debtor's money.

### **Cessation of insolvency procedures and liquidation of the debtor:**

eISSN1303-5150

repayment of the debt and the guarantees given to the creditor.

3- A detailed statement of the debtor's movable and immovable funds inside and outside the country and the approximate value of each of them at the date of submitting the application.

4- A statement of any lawsuits or legal or judicial measures taken against him.

5- A statement from the debtor that he is facing current or expected financial difficulties and that he is unable or does not expect to be able to pay all his debts, whether due at the time of submitting the application or those that are due in the future.

6- Funds necessary to support the debtor, his family and any person.

7- The debtor's proposals regarding the settlement of its financial obligations

8- The debtor nominates an expert to undertake the procedures in accordance with the provisions of this Decree-Law

9- A statement disclosing financial transfers outside the country that took place during the last 12 months

10- Any other documents supporting the application or requested by the court.

If the debtor is unable to provide any of the documents or data required in accordance with the provisions of Article 3, then he must explain the reasons for that in his request (Article 4/1 of the UAE Insolvency Law), meaning that the debtor must provide the justifications that prevented him from submitting these documents or data, It is one of the evidences of legislative facilitation for the debtor to urge him to submit requests for financial settlement.

### **Deadline for settling the settlement request:**

In application of the provisions of Article 7/1 of the Civil Insolvency Law, the competent court decides on the request for financial settlement without declaration or pleading, which is similar to the legal regulation of performance orders. The procedural system of state orders in general is based on the non-necessity of judicial declaration, the non-necessity of pleading, the non-necessity of a confrontation between the litigants and respect for the rights of the defense. These procedural guarantees were not adopted by the

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### **Debt report:**

The expert must prepare a list of all the debtor's creditors and specify the address of each of them, the amount of the debt due and its maturity date, a statement of the secured debt holders, the guarantees established for each of them, the estimated value of these guarantees, if any, and any other data that the expert deems necessary to perform his duties (Article 10/1 of the UAE Insolvency Law). The expert must prepare a report on the debtor's funds and indebtedness and all circumstances related to his default or cessation of payment, and submit it to the court within 20 working days from the date of the expiry of the grace period granted to creditors in Clause 6 of Article 8 of this law to submit documents of their debts, and to indicate in his report the possibility of a settlement. Financial liabilities or not according to the debtor's income sources (Article 10/2 of the UAE Insolvency Law).

### **Report audit:**

The court audits the report prepared by the expert in order to verify the debtor's debts (Article 11/1 of the UAE Insolvency Law), in order to ensure the validity of the report, and to ensure that it does not include false debts, or that it includes debts that contradict the reality of the debt relationship, or that it neglected debts already exist. The court may find that this report is correct, and in this case it issues a decision to assign the expert to prepare a financial settlement plan, which is expressly stipulated in the second paragraph of Article 11 of the UAE Insolvency Law "If the court decides to complete the procedures for settling financial obligations, it issues a decision assigning the expert to prepare the plan."

### **Rejection of the application:**

According to the text of Article 12 of the UAE Insolvency Law, the court decides not to complete the procedures for settling financial obligations and rejects the request for settling financial obligations in the following cases:

1- If the debtor undertakes or refrains from taking any action with the intent of concealing or destroying any part of his money, and the interested person must provide evidence of the

As previously said, in application of the provisions of Article 6/7 of the UAE Insolvency Law, if the competent court decides to open procedures for settling financial obligations, this will result in stopping the debtor's obligation to request his insolvency and liquidate his funds. Consequently, it is impossible to proceed with the procedures for settling financial obligations and the debtor's insolvency and liquidation of his funds at the same time. Therefore, the court's decision to proceed with the procedures for settling financial obligations shall stop the proceeding with the debtor's insolvency and liquidation procedures.

This cessation is enforced by law, and it does not require a request submitted by the debtor, nor is it subject to the discretionary power of the competent court, and it is not necessary for the court to refer to this cessation explicitly in the decision issued to proceed with the settlement procedures. However, the suspension of insolvency and liquidation procedures is not a final suspension, but rather an example of a temporary suspension so that this suspension remains valid during the period of procedures for settling financial obligations unless the debtor violates one of his obligations stipulated in the plan in accordance with the provisions set forth in the Decree-Law regulating the insolvency of the debtor (paragraph six of Article 7 of the UAE Insolvency Law).

### **Appointment of the expert:**

Article 8/1 of the UAE Insolvency Law stipulates that "the court must appoint, in the decision to open procedures for settling financial obligations, one or more experts to assist the debtor in settling his financial obligations." The competent court is obligated to issue a decision to open procedures for settling financial obligations by appointing one or more experts. This court does not have the discretion to appoint the expert according to its decision issued to open the financial settlement procedures, which can be justified by the fact that the issue of settling financial obligations is a technical issue. Neither the competent court alone nor the debtor alone can properly understand all the technical details related to the financial settlement procedures, so it must be appointed one or more experts.



competent court that may decide that it is better to extend the period for depositing the financial settlement plan. The expert shall invite the debtor and the creditors to one or more meetings, specifying a place and time to discuss and vote on the plan, provided that the first meeting takes place within a period not exceeding ten working days from the date of providing the creditors with a copy of the plan in accordance with Clause 1 of Article 13 (Article 13/3 of UAE Insolvency Law).

The expert may send an invitation to attend the meeting stipulated in Clause 3 of Article 13 by any possible means of communication (Article 13/4 of the UAE Insolvency Law), this may be through one of the means of modern technology, such as e-mail, text messages, or via Use of smart applications. The expert may invite the creditors to other meetings during the preparation procedures of the plan or postpone the date of the creditors' meeting accompanied by the number of creditors known to him and any other circumstances of importance for holding the meeting (Article 13/5 of the UAE Insolvency Law).

#### **Vote for the plan:**

The meeting of creditors stipulated in Article 13/3 of this law shall not be valid unless attended by a numerical majority of more than half of the total creditors, provided that they represent no less than two-thirds of the total debts that have been verified (Article 15/1 of the UAE Insolvency Law).

This means that the majority required for the validity of the creditors' meeting to discuss and vote on the settlement plan is based on the following conditions:

- 1- The presence of a numerical majority of more than half of the total creditors
- 2- That the creditors present represent at least two-thirds of the total debts that have been verified.

If one of the two previous conditions is not present, then the meeting of the expert with the creditors is not valid, which can be expected in the absence of a numerical majority of more than half of the total creditors, even if their debts are not less than two-thirds of the total debts that have been verified, or in the case of the presence

debtor's actions, which are accompanied by fraud and deceit; Because the general principle is that the debtor is in good faith until evidence to the contrary.

2- If the debtor submits false data about his debts, rights, or money, regardless of whether or not the data provided by the debtor is correct, because it is a material fact that may be proven by all methods of evidences.

3- If the debtor has stopped paying any of his debts on their due dates for a period of more than 50 consecutive working days as a result of his inability to pay these debts.

#### **Preparing a plan for settling financial obligations and presenting the plan to creditors:**

The expert must prepare the plan in cooperation with the debtor and provide the creditors with a copy of it, and deposit a copy in the court within 22 working days from the date of the court's decision to assign the expert to prepare the plan (Article 13/1 of the UAE Insolvency Law). The expert may not prepare the financial settlement plan alone, but He must cooperate with the debtor because the latter is more familiar with the reality of his financial position. And if the expert finishes this plan, the creditors must be provided with a copy of it, in order to allow them the opportunity to object to this plan if there were these objections, for example the omission of a debt, or the mention of a debt contrary to the truth.

The expert must also deposit another copy of this plan in the court within 22 working days from the date of the court's decision to assign the expert to prepare the plan. This deadline is a regulatory one, and there is no penalty for violating it if the expert made this deposit after the expiration of this deadline. The court has permission to extend the period of depositing the plan if the need arises (Article 13/2 of the UAE Insolvency Law), which varies according to the different circumstances of each individual case.

The previous text did not specify the person requesting an extension of the deposit period, but it is permissible for every person to request an extension of this period, whether it is the debtor, one of the creditors, the expert himself, or the



in the plan before the meeting (Article 18/3 of the UAE Insolvency Law), so the creditor's failure to attend is equivalent to his approval of the plan as long as he provided the expert with his requests received. The plan remains unchanged.

**Plan ratification:**

Before issuing the decision to ratify the plan prepared by the expert, and approved by the creditors as previously mentioned, the court must verify that the plan guarantees that all creditors who are affected by it will receive at least what they would have received if the debtor's funds had been liquidated on the date vote on the plan (Article 20/1 of the UAE Insolvency Law).

If this is proven, the court must issue a decision approving the plan if all the conditions stipulated by law are met and it is binding on all creditors (Article 20/2 of the UAE Insolvency Law), so the court's decision to ratify the plan is binding on all creditors, whether they were invited to attend a meeting vote on the plan, or have not been invited to the meeting. If the court decides to refuse to ratify the plan, it shall rule to initiate the insolvency procedures and liquidate the debtor's funds in accordance with the provisions of Part Three of this Decree Law (Article 3/20 of the UAE Insolvency Law). The effect of refusing to ratify the plan is to start insolvency procedures and liquidate the debtor's funds.

**CONCLUSION:**

The expert must prepare the plan in cooperation with the debtor and provide the creditors with a copy of it, and deposit a copy in the court within 22 working days from the date of the court's decision to assign the expert to prepare the plan. The meeting of creditors stipulated shall not be valid unless attended by a numerical majority of more than half of the total creditors, provided that they represent no less than two-thirds of the total debts that have been verified. Approval of the plan shall be by a majority vote of the creditors present whose debts are not less than two-thirds of the value of the debts that have been verified. The UAE legislator decided that the majority required to approve the plan is that the value of the creditors' debts exceed two-thirds of

of a majority A number that exceeds half of the total creditors, but their debts are less than two-thirds of the total debts.

**Modify the plan:**

The debtor or any of the creditors may propose any amendments to the plan during the meeting, and the creditors vote at the meeting on any amendments to the plan (Article 17/1 of the UAE Insolvency Law). He has a proposal to amend this item, whether it is a formal proposal, such as proposals related to the dates of payment of creditors' rights, or a substantive proposal, such as proposals related to the financial values of these rights.

The expert has the right to hold a second meeting of the creditors on the proposed amendments (Article 17/2 of the UAE Insolvency Law), and the effects of these amendments do not take effect until after holding this meeting and voting on them with approval, which can be imagined in the case of proposals that guarantee the proper functioning of the financial settlement plan for the debtor's obligations. This is unlike other proposals, which do not lead to the same conclusion and should be rejected.

**Plan approval:**

Approval of the plan shall be by a majority vote of the creditors present whose debts are not less than two-thirds of the value of the debts that have been verified (Article 18/1 of the UAE Insolvency Law). The UAE legislator decided that the majority required to approve the plan is that the value of the creditors' debts exceed two-thirds of the debt value, and not by the number of creditors present at the voting session. The expert gives the creditors who did not agree to the plan, abstained from voting on it, or did not participate in it, a period not exceeding 15 working days from the date of approving the plan to join it (Article 18/2 of the UAE Insolvency Law), so that their right to join this plan lapses if it ends. This short term.

The creditor who did not attend the meetings scheduled to vote on the plan is considered approved if he provided the expert with his requests and they were included without change



the debt value, and not by the number of  
creditors present at the voting session.

