



THE STUDY OF ECONOMIC POLICIES AND CHALLENGES IN COMPOSITION CONTRACTS: A COMPARATIVE STUDY OF THE IRANIAN, US, AND UK LEGAL SYSTEMS

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ABSTRACT

Composition contracts are of great importance in international legal systems and are considered to be an important tool for solving financial problems, as they contribute significantly to economic prosperity by preventing the complete dissolution of economic units. Therefore, a comparative study of composition contracts in different legal systems such as Iran, the United States and the United Kingdom can contribute significantly to the reform of commercial laws and regulations in this field. Accordingly, the main purpose of the present study is to examine the economic policies and challenges in composition contracts and their application in the legal systems of Iran, the United States and the United Kingdom. The main question of the present study is: "What are the main challenges of composition contracts in the legal systems of Iran, the United States and the United Kingdom?" In response, it can be hypothesized that the major challenge in the US and Iranian systems seems to be debt security, while in the UK, credit restoration is considered a major challenge. The research findings indicate that in all three countries, from a policy perspective, composition agreements play a vital role in resolving debts and rebuilding the financial situation of debtors, but each of these countries faces its own challenges. In Iran, there are problems such as lack of transparency in assets and resistance from some creditors. In the US, challenges such as legal complexities and problems related to creditor cooperation are present. Despite having a modern legal framework, the UK also faces issues such as administrative complexities and the economic impacts of composition agreements. Given the problems in all three systems, it is suggested that policy and legal reforms be carried out to facilitate the process of composition agreements in all three countries. This study uses a descriptive-analytical method and a comparative approach. Legal documents from Iran, the US, and England have been analyzed using library resources.

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Introduction

Bankruptcy generally refers to a situation in which a natural or legal person is placed under the protection and supervision of the legal system due to their inability to pay their debts. This situation has been defined in the legal codes of various countries as a solution for managing financial crises.¹ In Iran, Article 412 of the Commercial Code defines bankruptcy as a situation in which a businessperson is unable to pay their debts. In England, bankruptcy is defined for natural persons and for companies, the term “insolvency” is used, which means the inability to pay financial obligations. In the United States, bankruptcy includes processes governed by federal laws (such as Chapter 7 and Chapter 11), and its purpose is financial reorganization or liquidation of assets.²

Meanwhile, the composition agreement is one of the legal tools designed to protect the debtor and preserve the rights of creditors in the bankruptcy process. This agreement allows the debtor to pay part of their debts under certain conditions with the approval of the court and the consent of the majority of creditors and to prevent the complete liquidation of their assets. The composition agreement, as one of the bankruptcy management solutions, provides an opportunity for the debtor to prevent the complete collapse of assets with the cooperation of creditors and at the same time secure the rights of creditors to the greatest extent possible.³ The composition agreement is important in the bankruptcy process for various reasons. Among these is helping to maintain a balance between the rights of the debtor and the creditors, which allows the debtor to pay part of their debts with the collective agreement of the creditors and, at the same time, preserve their business or assets. On the other hand, this agreement allows for transparent asset management for creditors. Another advantage of the composition agreement is that it helps to prevent liquidation and provide conditions for financial restructuring, so that the debtor can continue their economic activity with proper asset management and legal protection and ultimately settle their debts.⁴ Also, in many cases, the composition agreement reduces legal

1 S Ghobadi, *A Comparative Study of the Effects of Bankruptcy on Arbitration in Iranian and American Law* (Majd 2021) 7 [In Persian].

2 M S Amirkhanloo, M Gholamalizadeh and A A Esmaili, ‘Conditions and Effects of Issuing a Bankruptcy Order in the Commercial Law of Iran, England and the United States with a View to the New Commercial Law Bill’ (2022) 12 *Bioethics Journal* 1 [In Persian].

3 H Mohammadi, *Commercial Law* (Danesh 2023) 43 [In Persian].

4 E Alemayehu, ‘Contractual or Judgmental Approach: Unearthing the Legal Nature, Effect and Execution of Compromise Agreement under



costs for both the debtor and the creditors by preventing complex and costly liquidation or forced sale of assets.¹ From a macroeconomic perspective, the composition agreement also prevents the closure of companies and increases in unemployment, and as a result, has positive effects on the economies of countries.²

According to the above, different legal systems have adopted different approaches to the nature, conditions, and effects of these contracts. The purpose of this study is to conduct a comparative study of composition agreements in the bankruptcy laws of Iran, the United States, and the United Kingdom in order to identify the strengths and weaknesses of each legal system by analyzing the similarities, differences, and challenges. Also, this study seeks to improve the effectiveness of this legal tool in resolving financial crises by providing suggestions for improving the legal framework and implementing composition agreements in Iran and other countries.

Given the nature of the subject and objectives of the research, this article constitutes an applied research study that is based on a comparative analysis of composition agreements in the bankruptcy laws of Iran, the United States, and the United Kingdom. The research method is theoretical and focuses on studying and analyzing legal sources, specialized texts, and related research articles. The required information was collected through a library research method and includes an analysis of bankruptcy laws, legal interpretations, and related international reports. The main sources of this study are: official laws, judicial opinions, authoritative legal books, and scientific articles published in domestic and foreign databases. A descriptive and analytical method was used to analyze and summarize the data. First, the composition agreements in each of the legal systems were examined, and then the similarities, differences, strengths, and weaknesses of each system were identified. Also, based on the analysis conducted, suggestions were made for amending and improving the relevant laws. Finally, considering the existing challenges and opportunities, practical solutions based on legal principles were proposed to improve the implementation of composition agreements within the framework of bankruptcy laws.

1. Review of Literature

Many studies have been conducted on the subject of composition agreements, but no study has been found that comprehensively examines the policies and challenges of this issue with a comparative approach in the systems of Iran, the United States, and the United Kingdom, and this issue is considered the main innovative aspect of the present study. However, some studies that are somehow related to the title and main objective of the study will be briefly reviewed below:

Mousavi and Fazli Jomor³ studied the procedure for issuing and executing bankruptcy orders in a study. The results of the study showed that, in accordance with the commercial regulations and the settlement of bankruptcy affairs in our country, efforts have been made to

Ethiopian Law' (2024) 8 Journal of Law 210, 219.

1 A Rich, *Scheme of arrangement reforms in Australia* (University of Sidney 2023) 19.

2 R Nathan, 'Developments in law relating to schemes of arrangement in Malaysia' (2024) 14 Journal of Global Restructuring Review 257, 261.

3 S A Mousavi and Y Fazli Jomor, 'The Procedure for Issuing and Enforcing a Bankruptcy Judgments' (2025) 1 Research and Development in Private Law 231 [In Persian].



manage and control the bankruptcy crisis in a way that includes the aforementioned goals. On this basis, specific features were selected for the execution and procedure for executing the stay order and bankruptcy orders. In this area, we can mention the execution of the judgment before it is final, the two-stage execution of the judgment (initial and final), the execution by rehabilitating the merchant through a compromise agreement, the management of the merchant's assets by the liquidation authority or the representative of the merchant during the liquidation, and the method of selling and dividing the assets of the merchant in crisis. Torfi Saeedavi and others¹ conducted a comparative study of the conditions for concluding a compromise and preventive agreement in Iranian and Egyptian law. The results of the study showed that issuing a bankruptcy judgment is one of the conditions for concluding a compromise agreement in Iran, while issuing a bankruptcy judgment is not necessary for concluding a compromise agreement in Egypt. The disruption in the merchant's business activities that leads to the conclusion of a preventive settlement agreement is at a lower level than the cessation of the merchant, and for this reason, the time for concluding a preventive settlement agreement is before the cessation and complete bankruptcy of the merchant, which has been taken into account in Egyptian law, and the Iranian Commercial Law Bill has also taken into account this concept of cessation as one of the conditions for concluding a preventive settlement agreement, and as a result, the preventive settlement agreement should be accepted in Iranian law as soon as possible. Rahimzadeh Meibodi & Mojahed² conducted a comparative study on composition agreements in Iranian, English and French law. The findings of the study showed that the Iranian composition provisions were derived from the provisions of the French commercial law. Considering that the French law in 2002 abolished the composition agreement based on economic considerations and commercial needs and instead established an amicable agreement that does not require court approval and confirmation, it is appropriate for our legislator to also pay attention to these needs and reduce the strictness of the law and unnecessary formalities to pave the way for the merchant to resume their activities. Kariminia and others³ conducted a comparative study of the composition contract in the laws of Afghanistan and Iran as an exception to the principle of the relativity of the contract. The results of the study showed that the composition contract is made based on the legal principles of Afghanistan and Iran by agreement of the parties. This type of contract, as an exception to the principle of the relativity of the contract, also has an effect on third parties, or opposing creditors; This study explained that that the contract in question creates rights and obligations not only towards the parties but also towards third parties. The obligation arising from the composition contract towards opposing creditors is that the said contract is binding on them; meaning that they cannot oppose the contract concluded between the majority of creditors and the merchant. Therefore, the legislators of Afghanistan and Iran have declared the minority to be subject to the will of the majority within the framework of the law; in such a way that first: the merchant, without the consent of the minority, is released from the

1 Y Torfi Saeedavi, B Taghi Poor and A Salehifar, 'Comparative study of composition and preventive contract conditions in Iranian and Egyptian law' (2023) 1 Comparative Studies on Islamic Countries Law 1 [In Persian].

2 H Rahimzadeh Meibodi and A Mojahed, 'A Comparative Approach to Composition Contracts in Iranian, English and French Law' (2021) 4 Legal Civilization 249 [In Persian].

3 M M Kariminia, A Saberi and M Ansari Moghadam, 'A Comparative Study of the Composition Contract in the Laws of Afghanistan and Iran, as an Exception to the Principle of Contract Relativity' (2021) 23 Contemporary Research in Sciences 72 [In Persian].



restraint of suspension and returns to normal business life; and secondly: The signatories of the composition agreement have priority over others in the recovery of their remaining claims from the merchant's assets. However, the right that the composition agreement seems to create for the opposing creditors is that if the merchant refuses to implement the terms of the composition agreement or has committed fraud leading to bankruptcy, or if it is found that he did not declare the true amount of their assets and debts before the composition agreement, the opposing creditors, as third parties, will have the right to file a lawsuit against the merchant to declare the cancellation or invalidation of the composition agreement, because they are interested in this lawsuit and their interest is in the cancellation of the effects of the said agreement; this means that with the cancellation or invalidation of the said agreement, all its effects, including the priority of the approving creditors, are eliminated and as a result, all creditors, both approving and opposing, are placed on the same level and in the recovery of their remaining claims from the merchant's assets, which may be due to them in the future. In addition, the logic of law dictates that in addition to the obligation to respect the composition agreement, in the above cases, the right to request its termination or annulment should also be granted to opposing creditors, who are considered third parties.

2. Discussion and Review

2.1. History of the Composition Agreement in Iran, England and the United States

Composition agreements in the Iranian legal system have their roots in older commercial laws. The Commercial Code of 1311 addressed the subject of composition agreements for the first time in a coherent manner. These agreements in Iran are designed to protect the debtor and prevent their complete bankruptcy. According to Articles 479 to 484 of the Commercial Code, a composition agreement is a type of agreement between the debtor and creditors that requires court approval and aims to financially restructure the debtor and pay the debt based on new conditions.¹ In the new Commercial Code bill (2011), major changes have been proposed to improve the implementation of composition agreements, including greater transparency in the contract conclusion process and an emphasis on respecting the rights of creditors, although these agreements in Iran still face challenges such as the lack of transparency of the debtor's assets and the lack of adequate supervision over the implementation process.² The history of composition agreements in England dates back to the Bankruptcy Act of 1542, which first provided a framework for resolving disputes between debtors and creditors. Over time, English bankruptcy law has evolved towards financial restructuring and the protection of debtors. The Insolvency Act of 1986 introduced Individual Voluntary Arrangements and Company Voluntary Arrangements, which are among the most important forms of modern composition agreements. These agreements are based on an agreement between the debtor and a majority of creditors and become binding upon court approval.³

Finch and Milman, in their book "Corporate Insolvency Law", emphasize that composition agreements in England were designed as a tool to preserve businesses and prevent companies

1 E Abdipourfard, *Commercial Law* (Majd 2021) 23 [In Persian].

2 M Saghari, *Bankruptcy: Suspension, Cancellation of Transactions, Composition Contract, Liquidation and Restoration of Credit, Reconstruction of Crisis-Stricken Economic Enterprises, Cross-Border Bankruptcy* (Majd 2022) 48 [In Persian].

3 R Bork and R Mangano, *The Anatomy of Corporate Insolvency Law* (SAGE 2024).



from going bankrupt, but in practice, there are problems such as resistance from some creditors or a lack of transparency in the debtor's financial information.¹ In the American legal system, the composition agreement is an important part of the United States Bankruptcy Code. Chapter 11 of the Code, which is dedicated to the reorganization of companies, provides for the conclusion of composition agreements. These agreements allow the debtor to continue their economic activities by setting up an agreed repayment plan. The US Bankruptcy Code was enacted in 1898 and has undergone several amendments since then, including the 1978 amendments that strengthened the role of composition agreements. Thomas Jackson in his book "The Logic and Limits of Bankruptcy Law" analyzes composition agreements as one of the most important legal tools to maintain a balance between the rights of debtors and creditors. He also points out problems such as the complexity of the processes and high costs and offers suggestions for simplifying the procedures.²

2.2. Composition Agreement in Iran and the New Commercial Bill

A composition agreement in Iranian law is a legal instrument in bankruptcy law, drawn up after the issuance of a bankruptcy order and during the liquidation process (which includes the sale and distribution of property among creditors) in order to prevent the liquidation of the bankrupt businessperson and to enable them to return to business. This agreement is covered in Articles 426 to 484 of the Iranian Commercial Code (approved in 1311) under the title "Composition Agreement and Liquidation of the Account of the Bankrupt Businessperson". The main purpose of this agreement is that the bankrupt businessperson, by agreement between themselves and their creditors, under specific conditions and by providing the necessary guarantees, will be able to continue their business activities and gradually repay their debts.³

2.2.1. Definition of a Composition Agreement in Iranian Law

According to the Commercial Code, a composition agreement is an agreement concluded between a bankrupt debtor and their creditors to determine the method of paying the debt in the form of installments, a discount, or forgiveness. Its main purpose is to protect the bankrupt businessperson and maintain a balance between the rights of creditors.⁴ The legal conditions for concluding a composition agreement are as follows:

- a) **Convening a creditors' meeting:** A meeting is held with the presence of all creditors and the conditions of the composition agreement are discussed. Article 478 of the Commercial Code requires that, in order to conclude a contract, the presence of a majority of creditors representing at least three-quarters of the claims is mandatory.
- b) **Consent of the majority of creditors:** Article 483 of the Commercial Code requires the written consent of the majority of creditors present at the meeting (representing at least three-quarters of the claims) for concluding a composition contract;
- c) **Court approval:** Article 484 of the Commercial Code states that after the conclusion

1 V Finch and D Milman, *Corporate Insolvency Law: Perspectives and Principles* (Routledge 2022) 51.

2 T Jackson, *Logic and the Limits of Bankruptcy Law* (Harvard University Press 2022) 87.

3 S Veisi, K Karamian and A Hamedinia, *Composition Agreement in Iranian Law* (Pol 2022) 25 [In Persian].

4 M Sharif Payami, *Composition Contract from the Perspective of Civil and Commercial Law* (Sanjeev and Danesh 2020) 6 [In Persian].



- of the composition contract, court approval is necessary for it to become enforceable. The court is obliged to ensure that the contract complies with the legal regulations;
- d) **Compulsion of the minority to accept:** Article 485 of the Commercial Code states that the minority of creditors who have opposed the contract are obliged to comply with its terms. This indicates the binding nature of the contract after court approval;
 - e) **Termination of the contract:** Article 486 of the Commercial Code provides that if the debtor does not fulfill their obligations, any of the creditors can submit a request to the court to terminate the contract.¹

2.2.2. Legal Nature of the Composition Contract in Iran

In terms of its legal nature, a composition contract can be considered a mixed contract that incorporates elements of private law and public law. From the perspective of private law, a composition contract is based on an agreement between the debtor and creditors, and its terms and obligations are determined voluntarily. This private nature allows the debtor to gain the trust of creditors by proposing a debt repayment plan. From the perspective of public law, court approval is necessary for the contract to be enforceable, which indicates the government's supervisory role over the fair implementation of composition contracts.² In the Iranian Commercial Code (approved in 1311), Articles 479 to 484 are dedicated to composition contracts. These articles clearly determine the conditions for concluding, the effects, and the enforcement guarantees of composition contracts. The purpose of these articles is to prevent unnecessary liquidation of businesses and to help the debtor's economic rehabilitation. However, the new Iranian Commercial Code Bill (2011) has attempted to address the shortcomings of the old Commercial Code. In this bill, attention has been paid to issues such as increasing transparency in the composition agreement process, providing alternative solutions for resolving disputes, and strengthening the rights of creditors.³ The composition agreement, as one of the special legal institutions in the bankruptcy process, has a multifaceted nature, the analysis of which requires examining the contractual and judicial aspects of this institution. According to some jurists, the nature of the composition agreement is considered to be a judicial decision; this means that despite the agreement between the bankrupt businessperson and a group of creditors, the agreement will not have any enforceable legal effects until it is approved by the court. In other words, what gives a composition agreement legal and binding force is the issuance of a court order of approval. However, another view believes that the main nature of a composition agreement is contractual, because its conclusion is based on an agreement between the bankrupt merchant and the majority of creditors.⁴ Article 420 of the Commercial Code stipulates in this regard: "As soon as the court's decision regarding the approval of the agreement becomes final, the liquidator shall issue a complete statement to the bankrupt merchant in the presence of the supervising member, which shall be closed if there is no dispute." This article indicates that although court approval is necessary to grant legal validity to the agreement, the primary and fundamental nature of this institution remains contractual (Torfi Saeedavi, 2023: 1).

1 M Saghari, *Commercial Law of Bankruptcy* (Majd 2021) 89 [In Persian].

2 R Moazzeni, *General Economic Law* (Majd 2020) 41 [In Persian].

3 M Erfani, *Commercial Law* (Mizan 2023) 85 [In Persian].

4 Moazzeni (n 19) 48.



2.2.3. Effects of a Composition Agreement on the Parties in Iran

In Iranian law, a composition agreement is provided for in Articles 477 to 489 of the Commercial Code. This agreement allows the debtor to settle part of their debts with the approval of the court and the agreement of the majority of creditors. Also, the composition agreement in the Iranian legal system is known as a tool to facilitate the financial restructuring of the debtor and protect the rights of creditors.¹ From a legal perspective, this agreement is a collective agreement that is concluded between the debtor and the majority of creditors and requires the approval of the court to become binding. This agreement is based on the principles of voluntary agreement, justice and public order and its goal is to create a balance between the rights of the debtor and creditors within the framework of the law.² The effects of a composition agreement on the parties in Iran can be analyzed in two main aspects: the effects on the bankrupt businessperson and the effects on creditors:

Effects on the bankrupt businessperson: Concluding a composition agreement removes the restrictions on the bankrupt businessperson and allows them to continue their business and management activities. This agreement is an opportunity for the businessperson to prevent the liquidation of assets and the cessation of economic activity by restructuring their finances and properly managing assets;

Effects on creditors: The composition agreement creates obligations for creditors that require them to comply with the agreed provisions. Among these obligations is accepting a delay in payment or a discount on part of the claims. Also, since the composition agreement requires the approval of the majority of creditors and the court, the rights of all creditors, both opposing and agreeing, are protected by this agreement.³ Therefore, the composition agreement, as a legal instrument with a hybrid nature, helps to restore the economy and maintain the commercial system while creating a balance between the rights of the debtor and creditors.

2.2.4. Composition Agreement in the New Trade Bill

The new Iranian Commercial bill, which was presented in recent years, introduces some important changes regarding composition agreements. This bill aims to facilitate business processes and support bankrupt debtors, and aims to make judicial processes related to bankruptcy, especially in the field of composition agreements, faster and more efficient. One of the important changes in the new bill is to simplify the process of approving composition agreements and to consider the possibility of using different models of debt repayment with more suitable conditions. These measures are especially aimed at supporting small and medium-sized enterprises that face serious problems in the event of bankruptcy.⁴ On the other hand, the new Iranian Commercial Code Bill, with the aim of improving bankruptcy laws and debtor financial restructuring, has made changes to the composition contract:

- **a) A more transparent process for concluding the contract:** The new bill, emphasizing transparency at various stages, has strengthened the role of the court and supervisory institutions, such as the formation of a creditors' committee in the new

1 A Rashedi Esfahani, *Applied Commercial Law* (Bazargani 2020) 17 [In Persian].

2 M Ashraghi, *Modern Commercial Law* (University of Tehran Press 2022) 37 [In Persian].

3 R Malakouti, *Merchant's Bankruptcy and Its Liquidation* (Soroush 2021) 94-96 [In Persian].

4 Moazzeni (19) 60.



bill, which is envisioned to supervise the implementation of the contract. In addition, more emphasis has been placed on respecting the rights of minority creditors and the possibility of objecting to the contract;

- **b) Increasing the role of the court:** The role of the court in supervising the proper implementation of the contract has become more prominent, and the court is required to review all details of the contract and assess its compliance with the public interest and the rights of creditors;
- **c) Stronger enforcement guarantee:** The new bill has established more precise enforcement guarantees for the failure to implement the debtor's obligations, including the right of creditors to object to the failure to implement the contract and the possibility of applying legal penalties in the event of the debtor's bad faith;
- **d) Encouraging financial restructuring instead of liquidation:** One of the key objectives of the new bill is to strengthen the approach of financial restructuring of the debtor instead of liquidation. In this regard, the debtor is given more opportunity to present repayment or restructuring plans.¹

2.2.5. Strengths of the Composition Agreement Laws in Iran

- **a) Protection of debtors:** The Iranian Commercial Code has provided for the possibility of concluding a composition agreement, which can help debtors to prevent the complete closure of their economic activities;
- **b) Clarification of the principle of good faith:** Bankruptcy regulations clearly emphasize that the debtor must have acted in good faith. This principle prevents abuse by debtors;
- **c) A relatively comprehensive definition of bankruptcy:** The Commercial Code has provided a relatively clear definition of bankruptcy and explained the conditions for its occurrence;
- **d) Provision of criminal enforcement guarantees:** In cases where the debtor has committed fraud or acted with malicious intent, criminal enforcement guarantees have been provided, which protect the rights of creditors.²

• 3.2.6. Weaknesses of Bankruptcy Laws in Iran

- **a) Aged and Outdated:** Iran's bankruptcy laws, being over 90 years old, do not meet modern economic and commercial needs. For example, e-commerce, multinational corporations, and issues related to new technologies are not addressed in these laws;
- **b) Lack of a clear framework for corporate restructuring:** Unlike advanced legal systems such as the UK and the US, Iran does not have a comprehensive and clear legal mechanism for restructuring companies on the verge of bankruptcy;
- **c) Lack of transparency in the debt settlement process:** The debt settlement process in Iran is complex and time-consuming, and usually leads to extensive legal disputes between debtors and creditors;

1 R Kharazmi, *A Comparative Study of Bankruptcy and Insolvency in Iranian Law* (Ayandeh 2024) 33 [In Persian].

2 R Eskini, *Commercial Law: Bankruptcy and Liquidation of Bankrupt Affairs* (Samt 2023) [In Persian].



- **d) Weakness in protecting minority creditors:** In cases where a majority of creditors make a decision, the rights of minority creditors may be ignored;
- **e) Lack of an efficient supervisory system:** Supervision of the behavior of managers and debtors during the bankruptcy process is weak, which increases the possibility of abuse.¹

2.3. Composition Agreement in England

2.3.1. Definition of Composition Agreement in England

In England, composition agreements are divided into two general categories, each of which plays a specific role and position in the legal system related to bankruptcy. The first category is agreements that are concluded before the issuance of a bankruptcy order and the purpose of their conclusion is to prevent the issuance of a bankruptcy order and preserve the debtor's assets. These agreements, which are mainly defined under the framework of "Individual Voluntary Arrangements (IVAs)" for individuals or "Company Voluntary Arrangements (CVAs)" for companies, allow the debtor to present a plan for the repayment of their debts with the consent of the majority of creditors and the approval of the court.² In this case, the conclusion of a composition agreement stops the liquidation process of the assets and provides the debtor with the opportunity for economic rehabilitation. The second type of composition agreement is related to the post-bankruptcy order period. In these circumstances, the debtor or the liquidator can propose a plan through which the payment of debts will be made in an orderly manner and with the approval of the court and the majority of the creditors. These plans are usually drawn up to ensure the collective interests of the creditors and, if successful, the bankruptcy order may be annulled. In other words, these types of arrangements are proposed as a solution for optimal debt management and reducing the harmful effects of the bankruptcy order on the debtor's economic activity. In both types of arrangements, their conclusion requires the agreement of the majority of creditors and, in some cases, the approval of the court. This process not only protects the debtor's rights against economic pressures, but also guarantees the interests of the creditors, since the repayment plans are carried out under legal supervision and with administrative transparency.³

2.3.2. The Legal Nature of the Composition Agreement in England

The nature of the composition agreement in England, as a debt management and bankruptcy instrument, contains elements of private law and public law. From the perspective of private law, this agreement is based on an agreement between the debtor and the majority of creditors. Thus, the agreement of the creditors with the proposals made by the debtor forms the basis for the formation of the agreement. However, from the perspective of public law, this agreement alone is not sufficient and the court's approval is considered a necessary condition for the legal effect of the composition agreement.⁴ In other words, until the court approves the said agreement, it will not have any legal effect. This court's approval acts as a validating factor for the agreement and thus, the nature of the composition agreement is a combination of contractual and judicial elements. Its

¹ Eskini (n 27) 178-181.

² C Cavallini and M Gaboardi, 'Towards a Transnational Model of Bankruptcy Law?' (2023) 23 Journal of Business Law 360, 367.

³ A Fagetan, 'Corporate Insolvency Laws in Selected Jurisdictions: US, England, France, and Germany—A Comparative Perspective' (2025) 14 Journal of Law and Economics 136, 147.

⁴ J Katz, 'The Coexistence Conundrum: Sub V and Small Business Cases' (2024) 43 American Bankruptcy Institute Journal 72, 78.



contractual aspect means that this instrument is concluded as a voluntary agreement between the debtor and the majority of creditors. The terms of the agreement include repayment of part of the debts or rearrangement of the repayment schedule. On the other hand, it is judicial because for the agreement to be enforceable, court approval is necessary. This makes the agreement binding on all creditors, even those who opposed it. The composition agreement is part of the legislator's efforts to provide alternatives to the full liquidation of companies. According to the Insolvency Act 1986, this legal instrument is designed to prevent the complete bankruptcy of companies and protect the economic interests of creditors and debtors. From a legal perspective, the composition agreement has an intermediate position; this agreement allows the debtor to continue economic activity while also securing the interests of creditors. This process is used with the aim of reducing the rate of bankruptcy and protecting businesses as vital components of the UK economy.¹

2.3.3. Effects of a Composition Agreement on the Parties in the UK

Effect on the debtor: The approval of a composition agreement by the court allows the debtor to avoid liquidation and the compulsory sale of its assets. The debtor can also retain its business and settle its debts in installments or on agreed terms by implementing the provisions of the agreement;

Effect on creditors: Creditors who have agreed to a composition agreement are obliged to adhere to its terms. These terms may include a postponement of the collection of claims, a reduction in the amount of the debt or a change in the method of payment. The agreement is binding on all creditors, including those who opposed it, from the date of court approval.²

2.3.4. Legal Conditions for Entering into a CVA

Company directors can submit an application for a CVA. To propose a CVA, an appointed insolvency practitioner (IP) (usually an accountant or insolvency lawyer) must be nominated. A meeting is then held at which creditors must vote in favor of the agreement by a majority representing at least 75% of the total debts by value. The court approves the CVA after reviewing whether it is in accordance with the law and the public interest. Once approved, all creditors (including opposing creditors) are obliged to comply with the terms of the CVA. The duration of the agreement is usually between 3 and 5 years, but can vary depending on the terms agreed. A key feature of the CVA in the UK is its high flexibility; it is a financial restructuring tool that allows debtors to propose a plan to pay their debts instead of going into liquidation. It is also less expensive than other methods, such as administration or compulsory liquidation, and the management of the company retains control of the company during the implementation of the CVA.³

2.3.5. Strengths of the Composition Agreement in the UK

- **a) Support for companies on the verge of bankruptcy:** CVA allows companies to manage their debts without closing down operations;
- **b) Flexibility for debtors and creditors:** CVA allows for a plan tailored to the needs of the company and creditors;

1 S D Parikh, 'Bankruptcy Tourism and the European Union's Corporate Restructuring Quandary: The Cathedral in Another Light' (2020) 42 *Journal of International Law* 201, 209.

2 T Mastrullo, 'Between modernity and prudence: The transposition into French law of Directive (EU) 2019/1023 of 20 June 2019 on restructuring and insolvency' (2022) 36 *European Insolvency and Restructuring Journal* 1, 7.

3 Katz (n 31) 88.



- **c) Prevention of liquidation:** Many companies have been able to avoid liquidation and return to economic productivity through CVA;
- **d) Legal support for the majority decision:** The decision of the majority is binding on all creditors, even if some creditors disagree with the agreement.¹

2.3.6. Weaknesses of the Composition Agreement in the UK

- **a) Long-term failure:** Many companies that implement a CVA eventually go bankrupt. This is due to the lack of change in the company's structure or fundamental problems of the business;
- **b) Potential abuse by debtors:** Some debtors may manipulate the CVA to their advantage by providing false information;
- **c) Pressure on minority creditors:** Small creditors may be forced to accept agreements that are not in their interest;
- **d) Dependence on court decisions:** The court approval process is time-consuming and may lead to delays in implementing the agreement.²

2.4. Composition Agreement in the United States

2.4.1. Definition of Composition Agreement in the United States

The bankruptcy laws of the United States are governed by the Federal Bankruptcy Code, which was enacted in 1978 and amended in various years. This Code is a set of regulations that are used in the federal court system to manage bankruptcy and restructure debts. The US Bankruptcy Code generally consists of several different chapters, each designed for specific circumstances of debtors. The main chapters of the Bankruptcy Code are: Chapter 7 (Liquidation), Chapter 11 (Reorganization), Chapter 13 (Adjustment of Debts of an Individual with Regular Income), and other special chapters for specific types of debtors such as agricultural operations or small businesses. Chapter 7, which is known as liquidation, is a process in which the assets of a bankrupt individual or company are sold and the proceeds are used to pay off debts. In contrast, Chapter 11 is dedicated to debt restructuring and is for companies or individuals seeking to reorganize their debts and preserve their businesses or assets. Chapter 13 is designed for individual debtors with a fixed income and allows them to repay their debts through a regular payment plan. The Code also includes provisions for the use of composition agreements and out-of-court restructuring processes, which in many cases can be an option to avoid bankruptcy. In the United States, a composition agreement is a legal arrangement that aims to financially rehabilitate the debtor and avoid bankruptcy. This agreement allows the debtor to pay its debts without having to go through a formal bankruptcy process and with the consent of creditors. In the United States, such agreements are governed by federal bankruptcy law, specifically Chapter 11 of the United States Bankruptcy Code.³

¹ I Mevorach and A Walters, 'The characterization of pre-insolvency proceedings in private international law' (2020) 21 European Business Organization Law Review 855, 864-866.

² Mevorach and Walters (n 35) 871-873.

³ G Ritter, 'A principled examination of US bankruptcy law and the accounting for value in conversions between chapters 7 and 13' (2024)

33 International Insolvency Review 205, 212.



2.4.2. The Nature of a Composition Agreement in the United States

In American law, a composition agreement is a bankruptcy management tool for debtors and creditors, within the framework of federal laws, especially Chapters 11 and 13 of the Bankruptcy Code. This agreement is an agreement that allows the debtor to pay their debts under certain conditions and prevent the complete liquidation of their assets. According to § 1123 of the US Bankruptcy Code, the debtor can develop a debt repayment plan in the Chapter 11 process (which mostly concerns companies and businesses) and submit it to the court for approval. If this plan is approved by the court and a majority of creditors holding at least two-thirds in amount and more than one-half in number of the allowed claims agree, the plan is confirmed and can be enforced.¹ The nature of a composition agreement in the United States is primarily contractual, meaning that the agreement between the debtor and creditors must be approved by the court in order to be enforced. This contractual arrangement gives the debtor the opportunity to pay their debts under certain conditions and over a defined period. In other words, a composition agreement cannot be enforced by mere agreement between the debtor and the creditors unless the court approves it. This indicates the court's supervisory role in ensuring fairness and justice between the parties to the agreement.²

2.4.3. Effects of the Composition Agreement on the Parties Impacts on the Debtor

Instead of going bankrupt and liquidating its assets, the debtor has the opportunity to use a plan to repay debts and preserve its business or assets. This approach can significantly help the debtor in maintaining its financial stability and preventing business closure, and, as a result, preserve jobs and economic opportunities;

Impacts on creditors: For creditors, this agreement provides an opportunity to recover part of the debts regularly and over defined periods. In addition, the composition agreement can prevent additional costs that may arise from the liquidation of the company and the sale of assets.³

2.4.4. Strengths of the Composition Agreement in the US

- a) Opportunity for restructuring: One of the biggest advantages of composition agreements in the US is that they allow companies and debtors to restructure and continue their activities without having to liquidate. This is in the interests of both debtors and creditors;
- b) Preservation of creditors' rights: In most cases, composition agreements involve obtaining the approval of a majority of creditors for the restructuring plans, which means that they are actively involved in the decision-making process regarding the terms of payment and restructuring;
- c) Flexibility in agreements: Debtors and creditors can negotiate various conditions

1 M Walton, 'Corporate Insolvency and Governance Act 2020-Final evaluation report November 2023' (2024) 26 Journal of Law and Finance 453, 461.

2 W Norton and J Bailey, 'The pros and cons of the Small Business Reorganization Act of 2019' (2020) 36 Emory Bankruptcy Developments Journal 383, 387.

3 A Walters, 'United States' bankruptcy jurisdiction over foreign entities: Exorbitant or congruent?' (2017) 17 Journal of Corporate Law Studies 367, 375-377.



for reducing or modifying debts and repayment, which allows for various negotiations and agreements;

- d) Legal protection: Courts in the United States have extensive oversight of the composition agreement process, which prevents potential abuses and safeguards the rights of all parties.¹

2.5. Challenges and Limitations of Composition Agreements in Iran, the United States, and the United Kingdom

The challenges and limitations of the Composition Agreement laws in Iran, the United States, the United Kingdom, and the United States were examined in three main areas: legal and practical challenges in implementation, problems related to the transparency of the debtor's assets, and other implementation issues. Among the most important legal and practical challenges in the implementation of Composition Agreements in Iran is the lack of cooperation of some creditors. Sometimes creditors may refuse to agree on the restructuring process for various reasons, such as protecting their own interests or lack of trust in the debtor. This can lead to delays in the restructuring process. Also, in many cases, creditors are in different groups and each may have different demands, which can complicate decision-making and implementation of the Composition Agreement.

In the United States, in the case of a Chapter 11 bankruptcy, some creditors may want to influence the restructuring plan based on their own interests. This may lead to litigation and increased legal costs. On the other hand, in some cases, the court-supervised restructuring process can be time-consuming and complicated, especially when creditors and debtors cannot reach an agreement. Another major challenge in the United Kingdom is the lack of cooperation of some creditors in negotiations and agreements. This can lead to the failure of the restructuring process or the failure to improve the debtor's financial situation. In some cases, the restructuring processes under the bankruptcy law in the United Kingdom face problems such as a lack of transparency in financial information, which can create complications for creditors and the courts. Another challenge is the problems related to the transparency of the debtor's assets. One of the main problems in Iran is the lack of complete transparency regarding the debtor's assets. This can complicate the proper assessment of the value of assets and the settlement of debts, especially in cases where debtors do not provide accurate and factual information about their assets. Sometimes, financial reviews by the courts are not precise enough, which can lead to incorrect decisions about the amount of debts and assets. In the United States, in some cases, especially in complex financial situations, it is also difficult to accurately assess the assets of debtors under Chapter 11. This can negatively affect the restructuring process. Some companies may also provide incomplete financial reports, which leads to reduced transparency and an incorrect assessment of the debtor's financial situation. Similar problems exist in the United Kingdom. Debtors may not provide sufficient and correct information about their assets, which increases the risk in the restructuring process. In some cases, the IP, who is responsible for assessing the debtor's assets, may have problems obtaining transparent information from the

¹ S Janis, J Payne and S Madaus, 'The promise and perils of regulating ipso facto clauses' (2022) 31 International Insolvency Review 45, 56-60



debtors. Other legal challenges and limitations in implementing composition agreements in Iran include the fact that Iran's bankruptcy laws are not fully updated and some legal articles need to be revised. This can lead to implementation complications and difficulties in adapting to new economic and commercial developments. Bankruptcy law in the United States, especially in Chapter 11, is complex for companies, and processes such as determining creditor priorities and creating a restructuring plan require a lot of time and money. Also, the bankruptcy process and composition agreements in the United Kingdom may be costly for debtors and creditors. High litigation costs and legal advice can make this process difficult to implement.

In Iranian law, a "composition agreement," sometimes referred to as a "compromise agreement," refers to an agreement concluded between a bankrupt businessperson and a majority of creditors, under the supervision and approval of the court, in order to adjust financial obligations and prevent a complete liquidation of assets. This agreement is considered a key tool in the bankruptcy process and its purpose is to facilitate the financial restructuring of the debtor while simultaneously securing the rights of creditors. In terms of its function, this mechanism is similar to mechanisms such as the CVA in the United Kingdom and Chapter 11 (Reorganization Plan) in the United States, but it has fundamental differences in terms of its executive structure, judicial approval, and legal requirements. Specifically, in Iranian law, the implementation of the agreement is subject to the consent of the majority of creditors and then formal approval by the court, which gives it a hybrid nature of private and public law. It should also be noted that this article uses terms such as "settlement agreement" or in some cases "compromise agreement" that may have different meanings in different legal systems. In particular, the term Settlement Agreement in English and American law is usually used in the field of labor law and the resolution of employment disputes. However, in this article, the term "compromise agreement" is used in its specific meaning in Iranian law and as Composition Agreement in the field of bankruptcy. Therefore, the interpretation of terminology should be made within the framework of Iranian legal concepts.

Conclusion

This study has examined the challenges and limitations of bankruptcy laws in Iran, the United States of America, and the United Kingdom. It concludes that although each of these countries has different systems in this regard, there are many common points in the implementation problems and challenges. These problems, including the lack of cooperation of creditors, the complexities of asset valuation, the lack of transparency in financial information, and the high costs of litigation and legal advice, are among the issues that are common to all of these countries. For this reason, fundamental reforms in bankruptcy laws and composition agreements can greatly help improve processes. In most countries, especially in Iran, there is a need for reforms in bankruptcy laws and processes related to composition agreements.

The "New Commercial Code Bill" is a draft law in Iran that aims to amend and update existing commercial regulations, but has not yet been approved. However, the bill is of interest in academic and professional circles of Iranian law and, in some cases, is cited as the basis for comparative analyses. The bill is not binding law in other countries, such as the United



Kingdom or the United States, but it can be proposed in a comparative study to understand the reformist and modern perspectives of Iranian law.

These reforms can include various measures, such as simplifying processes. For composition agreements to be more successful, it is essential that bankruptcy laws reduce unnecessary complexities and simplify the debtors' restructuring processes. This can help speed up the restructuring process and, on the other hand, properly safeguard the interests of creditors. It is also suggested that creditor cooperation be strengthened and that bankruptcy laws provide effective incentives for creditor cooperation. These incentives could include facilitating the restructuring process, legal guarantees to safeguard creditors' interests, and creating transparency in the decision-making process. Also, to ensure the successful implementation of the composition agreement, the role of the courts should be strengthened. Closer supervision by the courts and a more accurate assessment of debtors' assets could help reduce disputes and challenges. On the other hand, to avoid legal complexities and implementation problems, bankruptcy laws need to be made clearer and more precise.

The laws should be designed in such a way that all stages of the composition agreement are explained in detail and without ambiguity from beginning to end. Creditors should also be made aware of their rights as well as the consequences of cooperation in the composition agreement process. Legal training can lead to increased cooperation among creditors and expedite the implementation of settlement agreements. It is suggested that new technologies be used to increase transparency and expedite processes. In today's world, new technologies can play a significant role in improving legal and business processes. In the field of bankruptcy and settlement agreements, the use of new technologies can provide effective solutions to many challenges. For example, one of the biggest problems in the bankruptcy process is the lack of transparency in debtors' assets. The use of new technologies can help create an immutable database for recording asset information. This system can allow creditors and courts to access accurate and transparent information easily and achieve greater transparency in the restructuring process. Another suggestion is to use advanced software to automate processes related to settlement agreements and bankruptcy. This software can speed up the various stages of restructuring and prevent human errors. In addition, these systems can aid in making complex decisions and prevent the process from being prolonged. The use of artificial intelligence can also help in the more accurate analysis of financial and economic data. These analyses can aid in faster and more effective decision-making in the field of asset and liability valuation. Another solution to speed up processes is to use online systems for rapid agreements, where online platforms can help creditors and debtors to reach agreements quickly without the need for face-to-face meetings. These systems can enable communication and exchange of information instantly and in a secure environment. Finally, different countries can share their experiences in the field of bankruptcy laws and composition agreements with each other, and this international cooperation can help improve bankruptcy systems in each country and provide best practices for reforming laws and improving processes.



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