

# The Winding Up of Jersey Companies by the Royal Court

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Gillian Robinson, July 2009

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In recent years, there have been relatively few insolvencies in Jersey whether of corporates or individuals. The current economic climate is however beginning to take its toll and the number of corporate insolvencies is on the rise. In particular, the relatively rarely used court ordered winding up under Article 155 of the **Companies Jersey Law 1991**, as amended (“the Companies Law”), has been used with increasing frequency.

This Article provides that a court may order a winding up if it is just and equitable to do so or if it is expedient in the public interest to do so. The company, a director, a shareholder, the Minister for Economic Development, Jersey’s Financial Services Commission or certain other specified statutory bodies, may make an application for this relief. It is only the Minister and the Commission that may apply on the public interest ground and it has been rarely used.

Proceeding under Article 155 may prove to be advantageous in certain circumstances. The

following may be regarded as advantages when compared with a creditors’ winding up or a *désastre* – described later on in this article.

1. Timing – for a creditors’ winding up, 14 days’ notice must be given of the meeting to pass a shareholders’ special resolution. If passed, this will be followed by a creditors’ meeting. The timing can be crucial if there is a concern on the part of the directors that they may be trading whilst insolvent.
2. Choice of liquidator – whilst in a just and equitable winding up it is likely that there is a proposed liquidator in mind, it is ultimately a decision for the court. In a creditors’ winding up the liquidator is chosen by the creditors. This is not always desirable if there are doubts as to the bona fides of certain of the creditors’ claims.
3. There is no requirement for insolvency in an Article 155 application. Thus if there is

a structure with some entities which are insolvent and some which are not (but could, for example, be without directors and could need some direction), the court can wind them all up.

4. The jurisdiction does provide a great deal of flexibility and can be used in a variety of situations as demonstrated in the following cases:

- In **Jean v. Murfitt** (Jersey Unreported) 11 December 1996, the Bailiff said in respect of this jurisdiction:-  
*“We conclude by observing that the words ‘just and equitable’ in Article 155 of the 1991 Law should be given a flexible interpretation. Justice and equity cannot be confined within the four corners of specific instances”.*
- In **Re Leveraged Income Fund** (Jersey Unreported Judgment) 31 October 2002, the company was a collective investment fund, which was completely insolvent and had no assets whatsoever. A creditors’ winding up had failed due to a technical problem on the voting for the special resolution. The court wound it up on the basis that the substratum of the company had gone.
- In **Belgravia Financial Services Group Limited** [2008] JRC 161, it was noted amongst other things that an investigation into the company’s affairs and that of its subsidiaries, some of which were insolvent, and some of which were not, was required. The court wound up seven companies within the Belgravia structure.
- In **Bisson v. Barker & Others** [2008] JRC 193 deadlock had been reached between the shareholders

and directors in a small private company.

- In **Re Poundworld (Jersey) Limited** [2009] JRC 42, the company had two major assets, the value in which it was trying to preserve. There were the stock held by the shipper and the stock held in its retail outlets in the island. Both the shipper and the landlords were creditors of the company, and were threatening to exercise their liens over the stock. If that had happened, the stock would have been sold at a wholesale rather than the greater retail value. The court agreed with the company that it would be in the best interests of all the creditors for a liquidator to be appointed without delay who could maximise the stock realisations by selling them at retail values.

If a court orders a winding up, it is also empowered under Article 155 to direct the manner in which the winding up is conducted and to make any orders as it sees fit to ensure the winding up is conducted in an orderly manner. Whilst these provisions clearly give the court a great deal of discretion, in practice it may simply incorporate into any order the provisions of the Companies Law which apply to a creditors’ winding up. Examples of these would be the powers a liquidator would have in relation to disclaiming onerous property, transactions at an undervalue and the giving of preferences.

Of course, there are disadvantages to a court application. There is the cost of preparing the evidence to place before the court. The perceived advantage of speed over a creditors’ winding up is dependant upon there being court availability to hear the application. Furthermore, parties seeking leave to intervene such as creditors may cause the process to be delayed.

In the event of an insolvent situation, the possibility of an application under the **Bankruptcy Désastre (Jersey) Law 1990** should not be

overlooked. A creditor or a debtor may make an application and if made, the Viscount (the court's executive officer) is appointed in a similar role to official receiver. However, in complex cases, the Viscount is likely to appoint a firm of accountants to act and so another layer of cost is incurred. In addition, insolvency must be established, the relevant test being the cash flow test - the inability of a debtor to pay his debts as they fall due.

It is a sign of the times that Jersey is seeing an increasing number of insolvencies, and given the advantages of the court based approach, it is likely that it will be used with increasing frequency.

Appleby appeared for the applicant companies in the Belgravia Group.

Should you have any questions or requests for further information, please contact:

**Gillian Robinson**

**Partner**

grobinson@applebyglobal.com

Tel: +44 (0)1534 81839

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<p><b>Bahrain</b> Suite 2215 Level 22 West Tower Bahrain Financial Harbour King Faisal Highway Manama Kingdom of Bahrain Tel +973 1750 2848 Fax +973 1750 2847</p>	<p><b>Bermuda</b> Canon's Court 22 Victoria Street PO Box HM 1179 Hamilton HM EX Bermuda Tel +1 441 295 2244 Fax +1 441 292 8666</p>	<p><b>British Virgin Islands</b> No 56 Admin Drive Wickhams Cay 1 PO Box 3190 Road Town Tortola VG 1110 British Virgin Islands Tel +1 284 494 4742 Fax +1 284 494 7279</p>	<p><b>Cayman Islands</b> Clifton House 75 Fort Street PO Box 190 Grand Cayman KY1-1104 Cayman Islands Tel +1 345 949 4900 Fax +1 345 949 4901</p>	<p><b>Hong Kong</b> 8<sup>th</sup> Floor Bank of America Tower 12 Harcourt Road Central Hong Kong Tel +852 2523 8123 Fax +852 2524 5548</p>
<p><b>Jersey</b> PO Box 207 13-14 Esplanade St Helier Jersey JE1 1BD Channel Islands Tel +44 (0)1534 888 777 Fax +44 (0)1534 888 778</p>	<p><b>London</b> 2nd Floor 2 Royal Exchange Bldgs London EC3V 3LF United Kingdom Tel +44 (0)20 7283 6061 Fax +44 (0)20 7469 0540</p>	<p><b>Mauritius</b> 8<sup>th</sup> Floor Medine Mews La Chaussée Port Louis Mauritius Tel +230 203 4300 Fax +230 210 8792</p>	<p><b>Seychelles</b> Level 2B Caravelle House Manglier Street Victoria, Mahe Seychelles Tel +248 225 281 Fax +248 225 282</p>	<p><b>Zurich</b> Bahnhofstrasse 52 CH-8001 Zurich Switzerland Tel: +41 44 214 6525 Fax: +41 44 214 6524</p>