Journal of Politics and Law; Vol. 10, No. 2; 2017
ISSN 1913-9047 E-ISSN 1913-9055
Published by Canadian Center of Science and Education

International Bankruptcy with an Emphasis on Trade Bill Approved in 2013

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Received: October 5, 2016 Accepted: November 29, 2016 Online Published: January 26, 2017

doi:10.5539/jpl.v10n2p1 URL: http://dx.doi.org/10.5539/jpl.v10n2p1

Abstract

International bankruptcy has been grown by international trade. It has been created a wide literature about it. It is one of the essential factors to survive in the international trade space. Setting and enacting laws in this regard remarkably will help solve the legal troubles in the case of international trade. The aim of the present research is to investigate international bankruptcy with an emphasis on trade bill approved in 2013. The results show that new bill has somewhat been able to make general regulations and intended fundamental principles in UNCITRAL Model Law considered. It is done with regard to United Nations Commission on International Trade Law regarding borderless bankruptcy. By investigating different articles of the new bill it can be inferred that the tendency of the legislator is towards a theory of regionalism. Although it is somehow adjusted (regionalism based on interactions). The absolute basis of regionalism has been deduced from that. Therefore it could be said that the legislator has somewhat been lead to the theory of regionalism based on international interactions.

Keywords: international bankruptcy, international trade, regionalism

1. Instruction

There is no coordination in Iranian trade law (approved in 1932) through social developments and changes in economic and trade relations, despite passing along time after its initial approval date and alterations in social status. By considering all these events, it has led to developing a new bill of trade law. It has some positive points compared to trade law and especially in the case of bankruptcy. One of the innovations of the new bill is referring explicitly and extensively to international bankruptcy. It has been grown by legislating international trade. It has been created a wide literature about it. It is one of the essential factors to survive in the international trade space. Setting and enacting laws in this regard remarkably will help solve the legal troubles in the case of international trade. United Nations Commission on International Trade Law (UNCITRAL) approved and codified Model Law about international bankruptcy in 1997. It was offered that the Model Law to be inserted in countries national rules to help make coordination in encountering borderless bankruptcy. Synchronous with legislation and amendment of law about bankruptcy in different countries, Iran also has allocated the new bill approved on 11/04/2012 the ninth chapter of the fourth book to the regulations related to bankruptcy internationally. In fact, it is an adaption of UNCITRAL Model Law. Since there have not been yet these regulations in trade law and also other related laws, therefore this chapter is considered as innovations and privileges of the new bill. Lack of regulations in the case of international bankruptcy is one of the most significant gaps related to the present trade law. Fortunately, the authors of the new bill have considered it. During 6 regulatory chapter related to definition and terms, it has allocated accessibility of creditors and foreign representatives interior court, recognition of foreign proceedings, the effects of the recognition of foreign proceedings, judicial cooperation, and simultaneous proceedings for article 1151 to 1199 of a new bill to itself.

1.1 Terms of the Realization of Bankruptcy in International Trade Law

Basically, international bankruptcy is ascertained by existing of some terms. Paying attention to them is so important. Since front line and beginning of proceedings related to bankruptcy is authenticating these condition. In the case that terms of realization of international bankruptcy have been gathered all together, the dedicated process of bankruptcy proceedings is begun. One of the main terms of international bankruptcy realization is the

bankrupt person should be a businessman(Eskini, 2006). The other terms of bankruptcy realization are insolvency of payment of debts. These terms will be investigated in this research.

1.1.1 Bankrupt Person (Businessman, Non-Businessman)

Article 412 in Iranian law of the Commercial Code says: "businessman/ commercial company bankruptcy is achieved only as a result of the insolvency of payment of funds which is responsible for". According to this article, every businessman or commercial company that could not pay his debts in the due date is considered as a bankrupt person. Iranian legislator considers applicable bankruptcy only about businessman or commercial company. Non-businessman and even non-commercial company are not included in the bankruptcy regulations. This person is recognized as an insolvent and is subject to regulations related to insolvency (Erfani, 2005).

In Iranian law, deceased businessman bankruptcy also has been accepted as a result of article 412 Commercial Law. Since this article says that: "bankruptcy sentence of a businessman can be issued even one year after his death". It also endorses this subject matter of article 274 non-litigious law. It says that: "Liquidation of the assets of the deceased if the deceased is businessman according to provisions of traders' treatment is stopped". Of course, the sentence of his/her bankruptcy is not necessary to be issued according to the laws of liquidation in a sentence to divide the estate of deceased businessmen. Therefore any kind of business bankruptcy in Iranian law has been predicted (Erfani, M, 2005).

In Britain and America law, bankruptcy is not specialized for businessmen. Non-businessmen are also included. There is no special discussion about the type of debt. Although despite French and Iranian laws there are special and distinctive regulations of bankruptcy for a natural person and corporation of the businessman in Britain laws. In fact corporation in this country, especially commercial companies are subject to companies' law approved in 1985, while there is a unit law over natural and corporation bankruptcy in Iran and France (Erfani, 2005).

1.1.2 Insolvency of Payment of Debt

The term, Insolvency of payment of debt means that lack of possibility of payment of all due debts with the actual financial possibilities. Of course this term "Insolvency of payment of debt" actually does not mean that a businessman or a commercial company does not have any payment and his/its payment has been stopped, but it means he/ it could not pay all his/its obligated debt completely and overwhelmingly. It is deduced from articles 412 and 413 that lack of payment of debts in due date causes stripping affords appearance and worthiness to the parties to the transaction and arrangements should be implemented as soon as possible (Erfani, 2005). Firstly, the businessman should not be able to use any credits after declaring bankruptcy and increase over his/its debts. Secondly, the aforesaid estates should be provided for the creditors. Thirdly, it should be prevented to preferring a creditor to another creditor and paying financial demand of some creditors to the detriment of others. Fourthly, if the debtor could not compromise through offering a contract leniency and resume his business, properties liquidation should be implemented that means selling and dividing its proceeds among creditor.

In French law, insolvency of the businessman from payment of the debt has been accepted in the form of outward state. It means that it is even sufficient, the inability of payment of a debt that the sentence to be issued, since criterion is insolvency from payment till other creditors not to be damaging anymore. Therefore bankruptcy should be declared as soon as possible till authority deprivation of properties to be implemented from the businessman (Erfani, 2005).

In Britain law of companies' regulation, approved in 1985, inability in payment of the debt has been considered as one of the causes of the compulsory dissolution of the company. If the aforementioned company does not act towards the implementation of payment of debt, it will be considered bankrupt (insolvent) (Erfani, 2005). Also there is a disagreement about the conception of bankrupt of businessman in countries' laws. Speed principle in international commercial exchanges demands that countries determine the insolvency criterion of payment of debt, just for inability of payment of debt, though outward state, as our General Counsel of Supreme Court, also believed such this belief in one of its statement.

1.2 The Effective Factors in Creating International Bankruptcy

According to the history process of bankruptcy in the world, it is determined that different factors have interfered in the process of coming to exist and formation of bankruptcy. Political, social, cultural, economic conditions of every country and region, according to his/its condition, can be effective factors on bankruptcy. These factors can be different from one country to another one. But approximately some unit and uniform factors can be found in the international point of view. These factors are so different. In this research, it is investigated only to three main factors which are a lack of correct management of commercial affairs through businessmen, the existence of undesired economic conditions, and political interference of governments in the economy.

1.2.1 Incorrect Commercial Management

The most important reason of bankruptcy is mismanagement. Management mistake, high cost, weak financial activity, the ineffectiveness of sales activity, and high production costs can be an alert for businessmen bankruptcy, whether alone or a combination of them. Economic activities can be another reason for bankruptcy. Although despite mismanagement in affairs administration, sometimes in decision-making psychological factors interfere more effective than economic components. Freedom more than the determined limit of capital market and lack of attention to the important principle of companies' social responsibility will have an important effect on creating their financial and monetary crisis (World Bank Group. 2010).

1.2.2 Undesired Economic Conditions

The Economic downturn, changes in interest rates, a rise in inflation, fluctuations in raw material prices, international economic conditions, and unwanted natural hazards are the economic reasons of businessmen and commercial companies' bankruptcy.

According to the report of the World Trade magazine in 2/02/2009, the economic downturn that industrial countries of the world have been encountered in the past quarter century have been unprecedented. As a result of this downturn, about 8 million to 10 million of the people living in the world will lose their jobs to the end of 2009. It is obvious that this situation will effect on demand rate for goods and services such as items are being exchanged in the international arena (World Trade News, 2009).

1.2.3 Political Interference of Governments in the Economy

Government decisions, economic policy, approaches, and strategies are what governments apply to advance their economic affairs. For example, when a government publishes debentures through the central bank or changes the long-term interest rate or interferes in the currency market, it has addressed to apply economic policy related to monetary one. The government that changes taxes rate or give rewards to its staff, has addressed another type of economic policy which is exactly a financial policy. The government that changes wages and salaries or interferes in determining the price of some goods, it is told that it has addressed the third type of economic policy which is income policy (The science "global trade outlook in 2009").

Changing in supply and demand for goods in order to participate in prices competition in the national or international level, sanctions or biased economic supports of countries to each other and other plentiful issues can be considered as a model of the politicization of economic activity. All of these issues cause to create an enormous effect on the existence of the shadow of the bankruptcy of some people whose bankruptcies are derived from adversity and unfounded, non-pragmatic, biased political interferences. The consequences of such these obvious interferences are just for unsupported political businessmen (John Stuart Mill, 1990).

1.3 Dominant Views in Law Bankruptcy in International Commercial

The most discussions related to bankruptcy in international commercial law are more theoretical discussions. It is also investigating dominant conditions over international bankruptcy with the aim of achieving a proper solution and even the possibility of efficiency analysis and theoretical solutions. In this regard, globalism, which is a new view, gets less attention in courts despite regionalism which always gets more attention in courts. Therefore, in the following globalism (Unity of Bankruptcy), regionalism (Territoriality, Multiplicity of proceedings) peripheral and newfound theories are addressed.

1.3.1 Globalism (Unity of Bankruptcy)

A view that believes international bankruptcy issue should be investigated as a result of a law and under the control of a globally qualified court is called Globalism theory (Goode R, Herbert K, Ewan MK, & Jeffrey W. 2007). In this theory, the court investigating the issue applies its interior laws to the ascertainment of reconstruction or liquidation and also the determination of priority rights and the way of dividing properties among creditors. Of course, the investigation is done through recognition of this court according to the rules of solving the conflict of laws of the seat of the court, based on the other country law. In this method, investigating all of the bankrupt properties and wealth has to be investigated, wherever he is (Lopucki, 1999). Those properties should be in the authority of the court investigating them for the global action of its global jurisdiction (Bebclmk, 1999).

The issue should be noted for Globalism is that this view is just a hypothesis to solve a global trouble. Therefore many different sides of it have ambiguities. The issue is interpreted to Globalism is not a uniform collection with distinguished dimensions.

For many years, theorists, politicians, and doctrine have tried to develop this view. Even some of them have

pointed out that "those who support this approach have more sharp-eyed to see practical needs (Berends, 1998).

In order to make it practical, the governments should mutually accept recognition, investigation, and implementation of the sentence related to the original country (Westbrook, 1991). One of the motivations of countries to accept Globalism view is the rate of properties, put in their territory. It means that, if a country knows that by applying territoriality method, just 10 %of bankrupt debt will be paid, but by applying Universalism method and cooperating with other courts, 50 % of the interior creditors will be provided, then it will choose Universalism approach. In turn, those countries which have more properties of the bankrupt in their territory do not have a tendency to Globalism approach (Westbrook LJ, 1991). It seems that something that there is a consensus about, is that, "Globalism is the sealed future of international bankruptcy". Since even opponents of this theory accept that globalization of business makes countries' regulations uniform and finally space will be provided to apply Globalism, despite bringing up some objections such as its impracticability (Lopucki, 1999).

In this view, it is not paid attention to the negative effects made by court action on the situation of other countries creditors. Even if, in the case of international cooperation, properties' value increases, still interests, and collective compromise do not have any meaning among countries. Although regionalism view is the traditional and primary reactions of countries against international bankruptcy issue, in practice, different countries apply this view to the different levels. For example in the absolute territorial systems, that a few number of countries believe that, foreign creditors do not have the right to enter the creditor's line, even on the assumption that they have properties or financial interests in the country proceeding their rights (Westboork, 1991). But in a more balanced view, foreign creditors just have the right to enter in the creditors' line and to use probable right of priority compared with the demands made by bankrupt obligations in the interior boundary (Westboork, 1991).

Of course, it should be noted that there are a few countries implementing regionalism method entirely. Most of the countries have chosen, at least a number of non-territorial elements within their solutions, for the international bankruptcy issue. Most of the other countries also have made this view balanced by developing the concept "territory". These countries instead of limiting their jurisdiction to the properties that are put in their territorial limitation have developed their jurisdiction to the entire properties of a bankrupt whose judicial record proceeding has been started in their territory (Wessels & Kilbern, 2009).

Finally it should be said that, in spite of the fact that totally international bankruptcy literature reviews regionalism according to many experts' beliefs (Lopucki Lm, 1999) and based on their beliefs the reason for the survival of this view is that most of the countries instead of solving international consequences derived from bankruptcy of transnational companies have ignored that problem (Wessels & Kilbern 2009), however, regionalism has remained as dominant power in the international bankruptcy as well (Bebclmk, 1999).

In the issue of international bankruptcy, the court tries to remove conflicts, available among interior laws of the countries. Since the bankrupt and his creditors have involved in the issue, each of them in another territory. The territories that give different responses to the questions like "How the related issue of the bankrupt properties status should be set? And who should make a decision?" "Who is responsible for the bankrupt company after the end of the investigation?" "Who benefits from dividing properties and based on what he benefits from that?" Scientists try to find a proper and practical solution for these questions. The result is creating different theories in this chapter. But from 90 decade AD, new theories have been raised in this issue that sometimes without giving a general sentence about implements the law in a specific country, it lets responsible bankrupt choose dominant law. Even some businessmen also believe that basically the difference between Globalism and Territoriality should be set aside. This problem should be solved by creating interaction and coordination between courts. Some businessmen also find international organizations helpful. Among these theories, it could be mentioned to regionalism theory (Territoriality) based on international interaction, reorientation theory, international institution theory, conventionalism, and revision theory.

2. Approach of the New Bill to the Intended Theories

Although according to some scientists opinions, international bankruptcy literature reviews regionalism, in the new commercial bill and its different articles (Lopucki, 1999), it is encountered some tendencies to other opinions. Therefore in the following, it is mentioned for every of theories and their impacts on the new bill.

2.1 Approach of New Bill to the Universalism Theory

Article 1154 of new bill has considered the discussion of Globalism theory without attention to detail. In article 1154 states that "in the case of being sentences' conflict of this chapter with the content of international treaties, that Iran is a member of it, the mentioned treaties are judges." This is in a way that it is determined in the following of this bill that "if implementing the sentences of this chapter to be contrary the public discipline, the

court abstains from implementing it, according to the issue generally or partially." Or in another article, it states that "jurisdiction of Iranian courts for the proceeding of international bankruptcy action is according to the civil procedure law."

2.2 Approach of New Bill with the Tendency to Regionalism Based on Interactions

According to the regionalism view, international bankruptcy, that itself is affected by territoriality principle in international law, the court jurisdiction of every country, in proceedings of bankruptcy issue, is just to those properties that are put in that country's territory. According to the primary rule, this court is just responsible for dividing those properties among creditors. According to this fact that bankruptcy is one of the effective issues on the process of governments' economy and economic system also is considered as one of the important components of exercising sovereignty" therefore "exercising jurisdiction in proceeding of bankruptcy, is one of the aspects of exercising sovereignty" then, government do not have much tendency that other countries' courts can encounter their economic system a problem by issuing bankruptcy sentence of interior companies. Therefore, there will always be this tendency that bankruptcy issue to be internally investigated. In proceeding different articles of the new bill, it can be deduced that the tendency of the legislator has been towards this theory, though it has been somehow adjusted. The absolute basis of regionalism also has been deduced. As an example and applicability of article 1151, this chapter determines by stating territory and limitations related to implementing the regulations: "the sentences of this chapter are implemented subject to reciprocity or the existence of mutual or multilateral treaties: 1- the foreign court or its representative requests cooperation for foreign proceeding from Iranian component court; 2- Iranian component court requests cooperation about actions of this law issue from reliable testimony; 3- Simultaneous proceedings to be implemented jointly in Iran and at least one another country; 4- some issues that creditors or other beneficiary people in foreign country, to be beneficiary about petition a start or participation in the interior bankruptcy action. Therefore, when the regulations of chapter nine will be implementable, that one of the four issues of abovementioned to be existed subject to reciprocities or the existence of treaties between Iran and the other country that the bankruptcy issue is related to it.

2.3 Approaches of New Bill to the Reorientation Theory

Although there is also a belief in a choice of law governing the bankruptcy in this theory, vice versa in dividing properties chapter, there is a belief that every country shall interfere from creditors that it is going to protect them. The main idea of this view is that bankruptcy law should not interfere in it, ratio to the available law of creditors, especially about their guaranteed law. Therefore, dividing properties should be performed differently. It should be done according to the different properties and law related to each of properties.

This theory has been considered somewhat in the new bill, especially the foundations of this theory is based on lack of discrimination principle. In fact, in chapter nine of the new bill, it has been tried that implicitly and in the form of chapters five and six (Judicial cooperation and simultaneous proceedings) pay attention to this theory.

2.4 Approach of the New Bill to the International Institution Theory

In international institution theory, a fixed and single court investigates international bankruptcy issue as an international organization. Therefore, according to the theorists of this theory a "Global bankruptcy court" should be created by virtue of a global agreement (Cilreath, 2000). Interior legislator has not considered this theory yet.

2.5 Approach of the New Bill to the Conventionalism Theory

Those who have an economic view to the law issues have raised conventionalism theory to confront governmental regulations, especially imperative rules of law. According to their belief, it should be referred to law and regulations just the time that there is no possibility to achieve agreement for both parties. This theory is canceled, especially with the emphasis on the very same article 1151 of the new bill and the legislator has not considered it.

2.6 General Provisions (Inclusive) and the Basic Principles of Iranian New Trade Bill

Since scientists have been somehow affected by UNCITRAL Model Law in the enactment of the new bill, therefore it is addressed to the intended comparative regulations expression in the following.

2.6.1 General Provisions (Inclusive)

Model law has expressed its regulations in the form of five chapters and an introduction. Generally, regulations of model law can be divided into two parts of "Executive/office rules" and substantive rules. Executive rules itself is dividable into two parts of "international cooperation" and anti-discrimination rules. Substantive rules also form the most important part of the law. It is related to the recognition of foreign proceedings. The legislator

also has raised the international bankruptcy issue from article 1151 to 1199 in the new bill. In fact, the ninth chapter has been raised in the form of six parts. According to the article 1 of UNCITRAL Model Law, there is the possibility of exercising this law in four conditions.

- Creditors or other beneficiary people in the foreign country, to be beneficiary about petition a start or participation in a proceeding by virtue of (interior law).

The model law in article 13 has provided the possibility of direct referring of foreign creditors in the interior proceedings by enacting the anti-discrimination rule. In the new trade bill also it is determined that "the foreign representative can directly refer to interior component court." And "brings a bankruptcy action according to the interior law in Iran"

- Foreign proceedings and proceedings by virtue of (interior law) being done ratio to a bankruptcy simultaneously.

Chapter five of the law brings up the issues related to simultaneous proceedings. Whether this proceeding is original foreign one or non-original foreign or it has been started sooner or later than interior proceedings (Pottow & John 2005). In this regard, in the new bill and in the sixth part of the ninth chapter (articles 1195-1199) is pointed out to simultaneous proceedings issues.

- In this country (approver country) is requested an assistant from a foreign court or representative in relation to foreign proceedings.

The original foreign proceeding is a foreign proceeding that happens in the country of original interests' center of creditors. The non-foreign proceeding is foreign proceeding other than original foreign proceeding that happens in the country of incidence place of commercial agency related to Clause 6 of this Article of this issue (Article 1153 new trade bill approved in 2012).

- In a foreign country the assistant to be requested, in relation to a proceeding by virtue of (law of this country).

2.6.2 The Basic Principles

Despite the fact that it is not pointed out to the principles that the law is based on in any of the documents related to model law, such as the text of law for its approved guide and other intended documents, some principles can be deduced by scrutiny in different articles of law. They make the frame of law. Some of them are as follow:

- The hearing right

When the proceeding of demands is done against a bankrupt in a country, all the creditors should have this possibility that their action is proceeding. Therefore, when the interior regulations of a country create limitations such as nationality and like them for commencing an action, this makes wasting the right of hearing those claimants. Accordingly, the model law in clause 1 of article 13 recognizes the right of referring foreign creditors to the interior court. Article 14 also tries to guarantee the right of foreign hearing with the title of "notification of foreign creditors about interior proceeding". It is done through enacting obligations like notification to foreign creditors in such cases that the issue is notified to the interior creditors, considering a reasonable period of time for commencing an action, and notifying other information that is necessary, foreign creditors to know it (Pottow & John, 2005).

- Principle of speed

The model law in article 14 determines about notification of foreign creditors that there is no need to letters oratory or other formalities for notification. Paying attention to the principle of speed, in this case, makes foreign creditors also to be aware of interior proceeding process on time. This issue itself is the guarantor of their rights.

Article 25 also points out to this issue that the interior court can communicate with the exterior court or representative directly. It is paid attention to this issue in new trade bill. As an example in article 1161 of the bill it is expressed that the foreign representative can directly refer to the interior competent court (Article 1161 new trade bill approved in Islamic consultative assembly, 2012) or in another place it is determined that whenever, by virtue of sentences of this chapter, the notification of an issue to be necessary to the creditors who are resident inside, this issue should be also notified to the known creditors who do not have any address in Iran.

On the other hand, it is pointed out in article 1169 that chief clerk of the court sends original of the petition and their enclosure to the court. The court immediately issues exterior proceeding formalities according to the future articles, in an important administrative meeting by proceeding demand and the document enclosure to it; or by mentioning reasons refuses the demand.

- Principle of Goodwill

Despite the fact that the principle of Goodwill has been recognized in many important legal systems and it is pointed out in different law and conversions clearly, there is no consensus about the importance and validity of this principle among lawyers in Iranian law. UNCITRAL Model Law also in article 8 of itself is subject to observance of good will in the interpretation of this law. Therefore the principle of good will would be governing the entire law. According to the intended legal content in Iranian law, it can be said that, even in the case of lack of belief in the existence of the entire principle of Goodwill in Iranian law, at least this principle is not in conflict with our law and accepting it seems necessary.

- Principle of equal treatment with creditors

One of the most important principles in bankruptcy rights is the principle of equal treatment with creditors. Article 13 of model law clearly addresses this issue and points out that, foreign creditors also have the same rights as the interior creditors have in the interior proceedings. It is pointed out clearly to the existence of this right in the new bill and article 1164. It is ordained that foreign creditors have the same rights as the interior creditors have in the case of begin or participate in bankruptcy action by virtue of sentences of this chapter.

3. Conclusion

During several decades ago an international expression of bankruptcy law has been created in many countries. This expression has been along with the increasing interest of financial crisis management in transnational companies and achieving a common point in proceedings the related actions. In this regard, attention to international bankruptcy is inventions and privileges of the new bill. In fact, lack of regulations in the case of international bankruptcy is one of the most significant gaps related to the present trade law. Fortunately, the authors of the new bill have considered it. In the course of 6 parts of chapter nine, the aforementioned bill has allocated to itself some regulations in the case of definitions and expressions, accessibility of creditors and foreign representatives to the interior courts, recognition of foreign proceeding, judicial cooperation, and simultaneous proceedings of article 1151-1199 of the new bill. A new bill has been able to make general regulations and intended fundamental principles in UNCITRAL Model Law. It is done with regard to United Nations Commission on International Trade Law regarding borderless bankruptcy. In the new bill and in line with UNCITRAL Model Law, general regulations, and universality in formats like exercising territory, accessibility of creditor and foreign representative to the interior court, recognition of the foreign proceeding, cooperation with the foreign court and representative and simultaneous proceedings have been considered by the legislator. Moreover general regulations in the new bill also some of the mentioned principles in UNCITRAL Model Law have been considered such as the hearing right, principle of speed, principle of good will, and principle of equal treatment with creditors. By investigating different articles of the new bill it can be inferred that the tendency of the legislator is towards a theory of regionalism. Although it is somehow adjusted (regionalism based on interactions). The absolute basis of regionalism has been deduced from that. Therefore it could be said that the legislator has somewhat been lead to the theory of regionalism based on international interactions. In the issues related to bankruptcy in Iran; the interior court can directly communicate with their foreign courts or representatives or requests them information or help directly.

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