

FORUM: Economic and Financial Committee (ECOFIN) (GA2)

QUESTION OF: Measures to Prevent and Manage Corporate Insolvency

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POSITION: Chair

INTRODUCTION

Corporate Insolvency is a prominent issue all around the globe; it occurs when a firm is unable to pay back debts and loans to creditors and has to resort to liquidating assets and stopping business operations to prevent bankruptcy. Insolvency can be caused by a number of reasons, including financial mismanagement or other economic factors outside a company's control, but it can have severe impacts on an economy. According to a study done by the European Commission¹, a corporate insolvency crisis can have severe effects on a country's economy, as investors and consumers tend to lose trust in the economy, which in turn harms long term economic prosperity². Social impacts of such a situation can be observed through job losses, increased interest rates, and increased inflation³.

The extent of the problem can be observed in one of the sixth largest national economies in the world⁴, the United Kingdom. In the third quarter of 2023, in England and Wales, there were 6,208 registered company insolvencies with a 10% increase from the previous year.⁵ which emphasizes the rapid pace at which this problem is growing. It has a wide range of consequences around the world,

¹Insolvency Frameworks across the EU: Challenges After ..., economy-finance.ec.europa.eu/system/files/2023-02/dp182_en_0.pdf. Accessed 20 Sept. 2024.

²Kalish, Ira, et al. "The Link between Trust and Economic Prosperity." *Deloitte Insights*, Deloitte, 4 July 2024, www2.deloitte.com/us/en/insights/economy/connecting-trust-and-economic-growth.html.

³Author links open overlay panel Takeshi Niizeki, et al. "Trust in the Central Bank and Inflation Expectations: Experimental Evidence." *Economics Letters*, North-Holland, 12 Aug. 2023, www.sciencedirect.com/science/article/abs/pii/S016517652300321X.

⁴"Topic: The UK Economy." Statista, www.statista.com/topics/6500/the-british-economy/. Accessed 20 Sept. 2024.

⁵ "Commentary - Company Insolvency Statistics July to September 2023." GOV.UK, www.gov.uk/government/statistics/company-insolvency-statistics-july-to-september-2023/commentary-company-insolvency-statistics-july-to-september-2023.

some of these including unemployment, disruption of supply chains, inflation and negative economic growth.

Thus, it is clear that the issue of corporate insolvency in the global landscape is directly linked to this year's CGSMUN theme "Ethos vs. Progress: Reassessing Our Values in a Fragile World" as it takes into consideration the different opportunity costs that arise when a firm is forced to practice insolvency procedures to avoid bankruptcy, such as unemployment or the liquidation of assets.

DEFINITION OF KEY TERMS

Corporate Insolvency

When a company is insolvent it means that "it cannot pay its obligations when they are due"⁶. It can be seen as a form of "bankruptcy for businesses"⁷ and occurs when a company's debts outweigh its assets.

Debt Restructuring

"Debt restructuring is a process that involves negotiating with creditors to reduce your interest rate, extend your repayment term or cut your loan balance. It can help make your debt situation more manageable through smaller monthly payments, lower interest rates or reducing how much you owe."⁸

⁶ "What Is Liquidation?" *Investopedia*,

www.investopedia.com/terms/l/liquidation.asp#:~:text=Liquidation%20is%20the%20process%20of.

⁷ "What Is Insolvency?" *Real Business Rescue*,

www.realbusinessrescue.co.uk/company-insolvency#:~:text=Insolvency%20is%20when%20a%20company.

⁸ By. "What Is Debt Restructuring? - Experian." *Www.experian.com*, 2 Feb. 2023,

www.experian.com/blogs/ask-experian/what-is-debt-restructuring/#:~:text=Debt%20restructuring%20is%20a%20process.

Liquidation

Liquidation is “the process of bringing a business to an end and distributing assets to claimants” such as creditors and different stakeholders. It usually occurs when a company is unable to pay its debts when they are due. It “may also be used to refer to the selling of poor-performing goods at a price lower than the cost to the business or at a price lower than the business desires”.⁹

Debt Relief

“Debt relief involves the reorganization of a borrower's debts to make them easier to repay.”¹⁰

Bankrupt

When someone is declared as bankrupt it means that they are unable to pay their debts¹¹, and their property gets taken away or given to a trustee as a form of debt repayment.¹² It can also be defined as “a person who upon their own petition or that of their creditors is adjudged insolvent by a court and whose property is administered for and divided among their creditors under a bankruptcy law.”¹³

Creditor

“A creditor is an individual or institution that extends credit to another party to borrow money usually by a loan agreement or contract”¹⁴, so is essentially “a person or company to whom money is owing”.¹⁵ A secured creditor is any lender with an issuance of a credit product that is

⁹ “What Is Liquidation?” *Investopedia*,

www.investopedia.com/terms/l/liquidation.asp#:~:text=Liquidation%20is%20the%20process%20of.

¹⁰ years, Full Bio Follow LinkedIn Julia Kagan has written about personal finance for more than 25, et al.

“Understanding Debt Relief.” *Investopedia*, www.investopedia.com/terms/d/debt-relief.asp.

¹¹ Cambridge Dictionary. “Bankrupt.” @*CambridgeWords*, 12 July 2023,

www.dictionary.cambridge.org/dictionary/english/bankrupt.

¹² “Bankrupt Definition.” *Collins Dictionary*, www.collinsdictionary.com/dictionary/english/bankrupt.

¹³ “Definition of Bankrupt | Dictionary.com.” *Www.dictionary.com*, www.dictionary.com/browse/bankrupt.

¹⁴ Chen, James. “Creditor.” *Investopedia*, 30 July 2020, www.investopedia.com/terms/c/creditor.asp.

¹⁵ “Creditor Definition.” *Oxford Languages*, Google Dictionary, www.languages.oup.com/google-dictionary-en/.

backed by collateral (form of repayment)^{16 17}; in the event that a borrower defaults on the repayment of a secured loan, the assets are forfeited to the secured creditor. However, if a creditor is unsecured, he will not receive any assets as collateral meaning that it is a higher business risk.

Non-Performing Loans (NPLs)

Non-Performing Loans are “bank loans that are subject to late repayments or are unlikely to be repaid by the borrower”.¹⁸ It occurs when the borrower is in default and has not made any payments of interest for a certain period.¹⁹

BACKGROUND INFORMATION

Types of Corporate Insolvency

Cash Flow Insolvency

Cash flow insolvency, also known as liquid insolvency, is a type of corporate insolvency that occurs when a company or individual cannot meet their financial obligations in the short term because they do not have enough liquid cash available. It is possible for a firm to have sufficient current assets, or liquid assets, in the form of investments or property, however, if they are not liquid, they cannot be used to pay off their debts.²⁰ The indicators of cash flow insolvency include missed payments, increased borrowing, delayed collections of profit from customers and high payable turnover (delays in paying suppliers and possible supply chain disruptions).²¹ It usually occurs when there is a negative working capital ratio (“a financial metric that is the difference between a

¹⁶ Kagan, Julia. “What Is a Secured Creditor?” *Investopedia*, 31 Mar. 2021, www.investopedia.com/terms/s/secured-creditor.asp.

¹⁷ Oxford Languages. “Oxford Languages - Collateral.” *Oxford Languages*, Oxford University Press, 2024, www.languages.oup.com/google-dictionary-en/.

¹⁸ “Non-Performing Loans (NPLs) - European Commission.” *Finance.ec.europa.eu*, www.finance.ec.europa.eu/banking/non-performing-loans-npls_en.

¹⁹ Segal, Troy. “Nonperforming Loan – NPL.” *Investopedia*, 11 May 2022, www.investopedia.com/terms/n/nonperformingloan.asp.

²⁰ “Cash Flow Insolvency vs Accounting Insolvency.” *Gocardless.com*, www.gocardless.com/guides/posts/cash-flow-insolvency-vs-accounting-insolvency/. Accessed 1 Aug. 2024.

²¹ “Cash-Flow Insolvency | ECapital.” *ECapital*, 17 July 2024, www.ecapital.com/en-gb/financial-term/cash-flow-insolvency/. Accessed 19 Aug. 2024.

company's current assets and current liabilities"²²) which shows that the firm is struggling to meet its short term obligations.

Balance Sheet Insolvency

Balance sheet insolvency, or accounting insolvency, occurs when a company's total liabilities exceed its total assets, meaning that it owes more than it owns, so essentially, has a negative net worth. It occurs when the firm's financial performance is deteriorating meaning that there is reduced profitability and shrinking revenues due to declining sales, increased costs, and market changes. Balance sheet insolvency is usually indicated by negative trends in financial ratios such as Return On Investment (ROI) or Return On Assets (ROA) which infer that there is an issue with paying back investments.²³

Responses to Corporate Insolvency

Liquidation

Liquidation of assets, such as property and investments, occurs when a firm no longer has any liquid assets available so is forced to sell other investments to repay their debts. It signifies that the company cannot meet its financial obligations and that no other viable options exist to restructure or rescue the business which usually represents the acknowledgment that a company cannot continue to operate due to its financial state.

Liquidation can be used as a mechanism to fairly distribute assets among creditors to close the company's affairs by converting their assets into cash and or equivalents by selling them on the open market.²⁴ A key feature of liquidation is that once it begins, companies are forced to reduce their trading operations because they are forced to shift their focus away from regular business operations.

²² NetSuite.com. "What Is Working Capital?" *Oracle NetSuite*, 22 Aug. 2022, www.netsuite.com/portal/resource/articles/financial-management/working-capital.shtml#:~:text=Working%20Capital%20is%20a%20financial%20metric%20that%20is%20the%20difference.

²³ Clarke Bell. "What Is Balance Sheet Insolvency." *Clarke Bell*, www.clarkebell.com/blog/john-bell-2/.

²⁴ Hayes, Adam. "Liquidate." *Investopedia*, 2019, www.investopedia.com/terms/l/liquidate.asp.

Company Voluntary Administration (CVA)

CVA is a formal insolvency process which includes a type of external administration in which “an administrator is appointed to a company in financial distress”.²⁵ This process’s main goal is to restructure a company’s debt which can help make repayment more manageable as they become more able to locate funds. During this process, companies can continue trading because it is an arrangement that gives them a chance to stabilize their finances, allowing them to generate more revenue so they can eventually recover, unlike liquidation.²⁶

Receivership

Receivership involves the appointment of a receiver (by a secured creditor) to take control of the company’s assets or a part of their operations. This receiver, an insolvency practitioner, is tasked with recovering funds for the secure creditor with their primary duties being managing, selling, or operating the company’s assets to repay the debts, however, it only involves the assets that the creditor oversees. Their primary duty is to maximize returns for secured creditors, but they also have an obligation to the unsecured creditors to take care not to sell assets under the market price.²⁷

Causes of Corporate Insolvency

Financial Mismanagement

A key cause of corporate insolvency is financial mismanagement, which is the mishandling of the financial standing of a company. Since corporate insolvency is defined as the inability to pay back loans and debts, financial mismanagement is a crucial aspect as it undermines a company’s ability to generate profits which in turn limits their ability to pay off costs. Another way that this is related to insolvency is through the failure of keeping financial records as this could worsen relations between a company and the creditors which not only could create more problems with the inability to pay back loans but also worsen tensions during restructuring processes.

²⁵“Voluntary Administration | Practical Law.” *Practical Law*, 2016, [www.uk.practicallaw.thomsonreuters.com/w-004-2120?transitionType=Default&contextData=\(sc.Default\)#:~:text=A%20type%20of%20external%20administration](http://www.uk.practicallaw.thomsonreuters.com/w-004-2120?transitionType=Default&contextData=(sc.Default)#:~:text=A%20type%20of%20external%20administration). Accessed 20 Aug. 2024.

²⁶ ---. “Voluntary Administration: A Guide for Creditors | ASIC - Australian Securities and Investments Commission.” *Asic.gov.au*, 2017, www.asic.gov.au/regulatory-resources/insolvency/insolvency-for-creditors/voluntary-administration-a-guide-for-creditors/.

²⁷ ---. “Receivership: A Guide for Creditors | ASIC - Australian Securities and Investments Commission.” *Asic.gov.au*, 2017, www.asic.gov.au/regulatory-resources/insolvency/insolvency-for-creditors/receivership-a-guide-for-creditors/.

Similarly, financial mismanagement often leads to overspending and failing to monitor costs which could mean that there is not enough capital to pay off debts and other costs which could often lead the firm to needing to liquidize their assets.

Market and Economic Factors

Market and economic factors such as trading capacity, and the economic cycle are very influential in relation to businesses' status in a market. Primarily, if a company is exceeding trading capacity this means that there are not enough resources (supply) to meet the demand, which often means that the people whose demands are being promised but not met will have to be compensated in some form, so in turn, reducing the company's revenue instead of generating it. This is often an indicator of a company being in financial distress as they would need to hire more personnel or purchase more inventory but if they do not have the funds this would force them to borrow more money that they do not have or are unable to pay back.

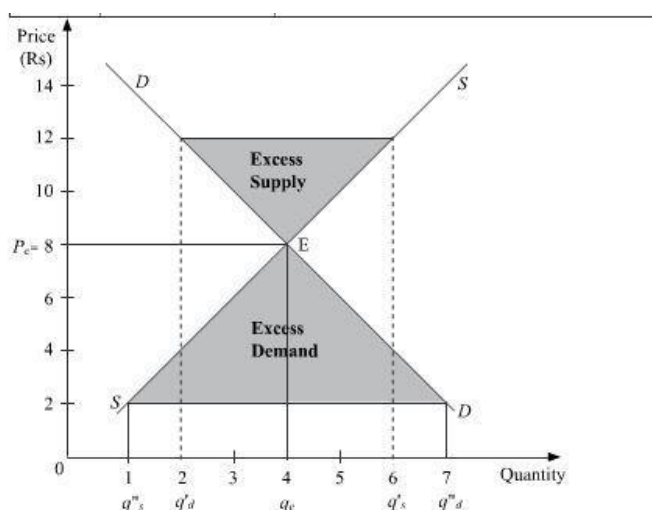


Figure 2: Graph showing the relationship between supply and demand²⁸

Moreover, the economic cycle can also influence a company's insolvency status, especially when the economy is in a recession. A recession is defined as a "significant, widespread, and prolonged downturn in activity"²⁹ which means that demand decreases, which then leads to cash flow problems such as excessive inventory holding and high fixed costs. Recessions often lead to a drop in consumer confidence, which means that they are likely to be spending and investing less so

²⁸ Toppr. "Explain the Meaning of Excess Demand and Excess Supply with the of a Schedule- Explain Their Effect on Equilibrium Price-." *Toppr Ask*, 9 Jan. 2020, www.toppr.com/ask/question/explain-the-meaning-of-excess-demand-and-excess-supply-with/. Accessed 20 Aug. 2024.

²⁹ "Recession: Meaning in Economics with Causes." *Investopedia*, www.investopedia.com/terms/r/recession.asp#:~:text=A%20recession%20is%20a%20significant.

will want their loans and debts to be repaid as they do not trust the firm's that are holding them. If many creditors ask for their loans to be repaid and a company is unable to pay them all at once because of the decreased revenue that they are receiving, they often become insolvent and must turn to practices such as liquidation and CVA.

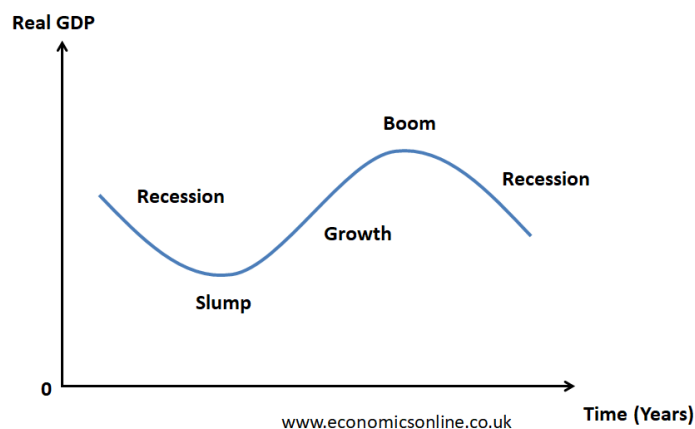


Figure 3: Graph of the economic cycle³⁰

Impacts of Corporate Insolvency

Economic Impacts

Initially, a key economic impact of corporate insolvency is the reduced investor confidence. Once investors discover that a firm is unable to pay their loans, they often withdraw their investments in the firm as they are less likely to profit from it. This means that the firms will receive reduced funding, and therefore, be less able to supply. This decrease in supply is likely to affect other supply chains as well, as firms (especially now due to globalization) are quite interdependent for the exchange of goods and services. For example, if a technology company becomes insolvent, they will no longer be able to provide for other firms that require their products meaning the other firms will have to locate different suppliers which could delay their production time.

Similarly, this could lead to increased costs for many of the firms whether it means that they must locate a more expensive supplier or are forced to pay more workers when they have less overall revenue, insolvency can largely affect a company's costs which often means there must be a reallocation of resources and capital.

³⁰ Ansari, Saddique. "Business Cycle Graph." *Economics Online*, 6 Aug. 2023, www.economicsonline.co.uk/definitions/business-cycle-graph.html/.

Lastly, firm's decreased revenue can also affect other stakeholders as well as the economy as a whole, and more specifically, can also affect government revenue as they would be receiving less money from taxes. This is especially creates a problem when many firms become insolvent and start to shut down their operations. This decrease in tax revenues for the governments can also lead to a lack of funding other infrastructure projects as government expenditure will also decrease.

Social Impacts

Although on a surface level corporate insolvency only affects the firms themselves and the economy, there are also many negative spillover effects for society; a primary one being the numerous job losses when firm's costs get too high and is thus forced to proceed with company-wide layoffs. This could create an unemployment surplus in a country which is very detrimental to the people themselves but also to the country whose labor resources are not being exploited to their full productive potential. This surge of unemployment often puts a strain on social services and other governmentally funded projects as there is an opportunity cost if more of the governmental funding is targeted towards welfare benefits for the unemployed.

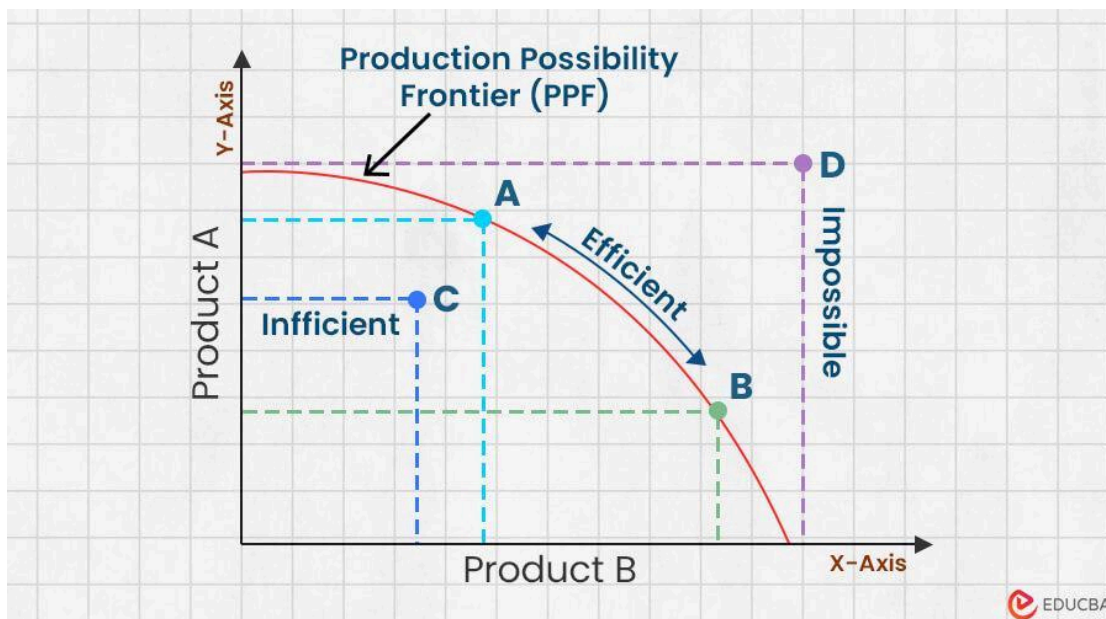


Figure 4: Graph showing a Production Possibility Curve (PPC)³¹

³¹ "Production Possibility Frontier | Meaning, How It Works, Graph." EDUCBA, 3 Feb. 2024, www.educba.com/production-possibility-frontier/.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

Greece

Corporate insolvency in Greece has recently risen mainly due to the global economic crisis in 2007 (which then triggered the Greek Debt Crisis in 2009, with a fiscal debt of 12.7%³²) and the COVID-19 pandemic; two events that put the country into an economic downturn, reducing the firm's ability to pay back their loans and debts without liquifying their assets. To tackle this issue, the government issued a new insolvency law on June 1st, 2021, namely law 4738/2020 which introduced a holistic approach to insolvency legislation and ways to settle debts to all stakeholders (specifically governments, banks and private creditors).³³

Brazil

Insolvency has been a long, ongoing issue in Brazil, with over 289 Brazilian companies filing for bankruptcy³⁴ which is why in December 2020, Brazilian authorities overhauled its 15-year-old Bankruptcy and Reorganization Act with the Enactment of Federal Law No. 14,112 which allowed for greater flexibility in judicial process, allowing companies to renegotiate their debts more effectively with creditors by including new financing mechanisms such as Debtor-In-Possession financing which gives priority to new creditors during restructuring.

International Monetary Fund (IMF)

The IMF is an organization dedicated to fostering sustainable economic growth and oversees various crisis management strategies specific to corporate insolvency. Some of these include fast and fair restructuring processes, broad based liquidity approaches and solvency support schemes which all aim at reducing global insolvency by implementing management, prevention and detection techniques. The reform of insolvency systems has become a crucial component of the IMF's programs because of the impact they have on global economies and financial systems.³⁵

³² Picardo, Elvis. "The Alpha and Omega of Greece's Debt Crisis." *Investopedia*, 2019, www.investopedia.com/articles/personal-finance/061115/origins-greeces-debt-crisis.asp.

³³ PricewaterhouseCoopers. "Update on the New Debt Settlement and Insolvency Framework for Small Businesses and Households." *PwC*, 2021, www.pwc.com/gr/en/newsletters/legal-news/NewInsolvencyFrameworkIndividuals.html. Accessed 20 Aug. 2024.

³⁴ Fabiane Ziolla Menezes. "Market Roundup: Brazil's Rising Tide of Bankruptcy Protection." *The Brazilian Report*, 15 Apr. 2023, www.brazilian.report/business/2023/04/15/rising-tide-of-bankruptcy-protection/. Accessed 20 Aug. 2024.

³⁵ Hagan, Sean. "Promoting Orderly and Effective Insolvency Procedures." *Finance & Development*, www.imf.org/external/pubs/ft/fandd/2000/03/hagan.htm.

World Bank Group

The World Bank Group collaborates alongside many different other organizations to tackle the issue of corporate insolvency. A key collaboration was with the United Nations Conference on International Trade Law (UNCITRAL) with who they created the Insolvency and Creditor/Debtor Regimes (ICR Principles) which served as a basis for the creation of global laws and regulations surrounding insolvency practices. Similarly, the group provides country-specific technical assistance that involves various workshops and training for insolvency practitioners. Furthermore, through ethical data collection and analysis they have been able to comprise a “Doing Business” report that assesses the effectiveness and efficiency of insolvency practices in different countries.

TIMELINE OF EVENTS

Date	Description of Event
30 December 1964	UNCTAD was established.
1990	IBM started facing many challenges in the computer market and began looking for solutions to their nearing insolvency.
1996	The Small Business Job Protection Act was signed in the United States of America and was a piece of legislation that increased the competitiveness of small business while simultaneously increasing minimum wage and adjusting corporate legislations. ³⁶
1997	The financial crisis in Asia occurred, resulting in high levels of corporate insolvency among many high credited companies in the market for many countries including: Thailand, South Korea, Indonesia and many more.
2004	The United Nations Commission on International Trade Law (UNCITRAL) released a Legislative Guide on Insolvency Law aimed at helping policymakers come up with different laws and regulations to tackle Insolvency.

³⁶ “Small Business Job Protection Act of 1996.” *Investopedia*, www.investopedia.com/terms/s/small-business-job-protection-act-of-1996.asp#:~:text=Key%20Takeaways%3A

2007	The Global Economic Crisis began.
2019	The Coronavirus (COVID-19) Pandemic began, impacting economies and societies globally,
December 2020	Brazil's federal law no. 14,112, which aimed to allow greater flexibility in judicial processes, was put into action.
1 June 2021	The Greek Government issued the new Insolvency Law 4738/2020 which aimed to provide a holistic approach for tackling corporate insolvency.

UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS

- **United Nations Commission on International Trade Law (UNCITRAL) Legislative Guide on Insolvency Law (2004)**

UNCITRAL³⁷ is an organization founded with the purpose of developing frameworks related to international trade and investment. In 2004 it released a legislative guide on Insolvency Law which is used as a reference for by national authorities and legislative bodies when creating new laws and frameworks. It was split into 4 parts designed to create an efficient and easily accessible resource to use to ensure the easy identification of different problems and solutions, hence, making it easier to recognize and tackle the problem of insolvency in different regions around the world.^{38 39 40}

- **United Nations Conference on Trade And Development (UNCTAD) Debt Management and Financial Analysis System (DMFAS) Program**

UNCTAD is a conference aimed at managing trade and development around the world. It was first established in the 1960s and has so far supported 117 firms in 76 countries to strengthen their debt

³⁷ United Nations. "United Nations Commission on International Trade Law | United Nations Commission on International Trade Law." *Un.org*, 2019, www.uncitral.un.org/.

³⁸ "UNCITRAL Legislative Guide on Insolvency Law | United Nations Commission on International Trade Law." *Uncitral.un.org*, www.uncitral.un.org/en/texts/insolvency/legislativeguides/insolvency_law.

³⁹ *UNCITRAL Legislative Guide on Insolvency Law UNCITRAL UNITED NATIONS COMMISSION on INTERNATIONAL TRADE LAW Part Four: Directors' Obligations in the Period Approaching Insolvency.*

⁴⁰ "Insolvency | United Nations Commission on International Trade Law." *Uncitral.un.org*, www.uncitral.un.org/en/texts/insolvency.

management capacity through their DMFAS program.⁴¹ It is aimed at debt prevention through schemes that include annual reviews of management processes and software that keeps them informed on their client's debt management. This is key in preventing corporate insolvency as debt prevention and knowledge can help save a company from being forced to liquidize their assets and stop trading operations. This is key in ensuring that firms continue their operations.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Balance Sheet and Cash Flow Tests

A critical method for detecting corporate insolvency is through various testing. Initially, firms can conduct balance sheet tests which involve evaluating the assets and liabilities that they hold. If the liabilities outweigh the assets, it is obvious that the company is becoming insolvent, however if the assets outnumber the liabilities, it is important for the firms to consider the value of the assets and the contingent liabilities (potential liabilities that might arise due to a future event). Similarly, cash flow tests work by analyzing the firm's ability to generate cash from operations to pay its debts. If a company passes and can cover all its obligations with its cash inflows it is likely that the company is solvent however if it is unable to generate the profit to pay off all its obligations it can be considered insolvent.^{42 43}

Both tests are very useful in determining if a company is insolvent, especially when they are used together. Regularly testing a firm can prove as a useful strategy to prevent corporate insolvency however cannot be useful on its own as it fails to provide a solution for the insolvent firm.

International Business Machines (IBM) Corporation Corporate Insolvency Prevention

By the early 1990s, the once dominant force in the computer market, IBM, began facing difficulties in paying back its loans. The increased competition led to decreased sales and increased costs making the company quite vulnerable to market shifts while losing almost 16 billion USD⁴⁴

⁴¹ UNCTAD. *About the DMFAS Programme*.

⁴² "What Are Balance Sheet Tests? What Are Cash Flow Tests? (Guide)." *Corporate Financial Solutions*, 13 Feb. 2022, www.cfsinsolvencypractitioners.co.uk/balance-sheet-tests-cash-flow-tests/. Accessed 20 Aug. 2024.

⁴³ "Establishing Corporate Insolvency: The Balance Sheet Insolvency Test | Oxford Law Blogs." *Blogs.law.ox.ac.uk*, 31 July 2019, www.blogs.law.ox.ac.uk/business-law-blog/blog/2019/07/establishing-corporate-insolvency-balance-sheet-insolvency-test.

⁴⁴ *Case Study- Disaster and Recover Strategies at IBM*. www.global-strategy.net/disaster-and-recovery-strategies-at-ibm/#:~:text=Over%20the%20period%201991%E2%80%9393,of%20the%20Republic%20of%20Ireland).

which meant that the firm was soon reaching insolvency. In response, IBM hired a new Chief Executive Officer (CEO), Lou Gerstner, who initiated cost-cutting measures and reduced the firm's dependence on traditional mainframe business and transitioned to a new industry: providing IT services and consulting. These actions ensured the long-term stability of the company's finances and helped it become a leader in the IT-Consulting Industry however they were unsuccessful in keeping the firm in its original market – without the transition to services it is likely that the company would have become insolvent. Another problem with this strategy is that it led to the unemployment of nearly 60,000 individuals⁴⁵ which were another of the opportunity costs for keeping the firm open.

POSSIBLE SOLUTIONS

Preventative Measures

One of the most important ways to tackle and prevent corporate insolvency is through the creation of detection techniques, similar to the Balance Sheet and Cash Flow Tests, as early detection could lead to the prevention of the company becoming insolvent and reduces the risk of the need for liquidation and stopping trading operations. This is particularly beneficial to a firm as it gives them time to manage their resources and allocate their revenue accordingly before they reach the final stage. By doing this, firms can keep their firms running for a longer time period, generating more profit, but also can ensure that they don't reach bankruptcy status.

Debt Restructuring and Refinancing Options

Debt restructuring techniques are numerous and very influential in managing corporate insolvency. Some of these processes could include extending date maturities, reducing interest rates, conversion of debt to equity and debt moratorium. The advantage of this is that it provides immediate relief to a firm while preserving creditor-firm relations. However, for these processes to be achieved, all the creditors must agree which is something they are unlikely to do if they do not also gain a benefit from it and it is also likely to affect the firm's credit rating.

Moreover, refinancing options include longer repayment time, debt consolidation and improving cash flow, all of which would help the firm reduce costs, improve liquidity, and help it grow. By doing these, the firm would successfully avoid bankruptcy and corporate insolvency however this is quite costly and could still take away some of the profit or be forced to pay prepayment penalties.

⁴⁵ Bobkoff, Dan. "IBM: When Corporations Took Care of Their Employees." *Marketplace*, 13 June 2016, www.marketplace.org/2016/06/13/profit-ibm/.

Access to Emergency Credit Facilities

Primarily, emergency credit facilities are short-term financing options offered by banks, financial institutions, or government entities to companies facing urgent liquidity needs. This is crucial for managing and preventing corporate insolvency as it is a form of early intervention that stabilizes the firm's finances and provides immediate liquidity support through bridge financing and avoiding asset liquidation which can help ensure that the firm remains in operation. These facilities can often be flexible and helpful in maintaining creditworthiness which can save a company from becoming insolvent and losing market credibility.

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