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The Corporate Rescue for Companies during the COVID-19 Pandemic in Indonesia: Prospects for the Concept of Deeds of Arrangement and Administration Order

F. Yudhi Priyo Amboro

Faculty of Law, Universitas Internasional Batam, Indonesia

yudhi.amboro@gmail.com

Abstract. The COVID-19 pandemic has an impact to all countries, including Indonesia. This raises the problem of debt default. Rather than bankruptcy and suspension of payment (PKPU), it is better to look an alternative that become a savior for the company. This research explores the concept of Deeds of Arrangement and Administration Order according to United Kingdom law, and looking at the prospects for the concept of Deeds of Arrangement and Administration Order for Indonesia. It is a normative juridical research, and it was processed with a qualitative approach supported by a comparative legal analysis. The conclusions of this research show that the concepts of the Deeds of Arrangement and Administration Order are similar to the bankruptcy and PKPU schemes also have differences. The differences on the Deeds of Arrangement are how to register, the agreement is passed on a non-litigation basis and determined by the court, and no publication is required. The differences on the Administration Order is the mandatory debtor's company management taking-over, the applicants, the administrators which can be appointed outside the court without court approval, and the administrator will make a corporate rescue proposal. The concept of the Deeds of Arrangement which is a contractual non-litigation and the Administration Order which provides a better corporate management role, is the right solution during the COVID-19 pandemic rather than bankruptcy and PKPU, as well as other litigation. The temporary character of the COVID-19 pandemic condition is the basis of this thought, so a solution concept that leads to maximization of the corporate rescue rather than liquidation, is needed.

Keywords. Debt, Insolvency, Corporate Rescue, COVID-19 Pandemic

1. Introduction

The era of the COVID-19 pandemic started some time ago. It is interesting to be discussed because the COVID-19 pandemic has the potential to collapse the joints of the economy of each country, slowly but surely, if not handled properly. COVID-19 is a pandemic associated with pneumonia caused by a virus. In late December 2019, occasional gastrointestinal symptoms happened in a seafood wholesale wet market, the Huanan Seafood Wholesale Market, in Wuhan, Hubei, China. The initial outbreak was reported in the market in December 2019 and involved about 66% of the staff there. The market was shut down on January 1, 2020, after the announcement of an epidemiologic alert by the local health authority on December 31, 2019. However, in the following month (January) thousands of people in China, including many provinces (such as Hubei, Zhejiang, Guangdong, Henan, Hunan, etc.)

and cities (Beijing and Shanghai) were attacked by the rampant spreading of the disease. Furthermore, the disease traveled to other countries, such as Thailand, Japan, Republic of Korea, Viet Nam, Germany, United States, and Singapore. The first case reported in Taiwan was on January 21, 2019. As of February 6, 2020, a total of 28,276 confirmed cases with 565 deaths globally were documented by WHO, involving at least 25 countries. The pathogen of the outbreak was later identified as a novel beta-coronavirus, named 2019 novel coronavirus (2019-nCoV) and recalled to our mind the terrible memory of the severe acute respiratory syndrome (SARS-2003, caused by another beta-coronavirus) that occurred 17 years ago.¹

In response to the spread of COVID-19, the Japanese government on February 27 issued a request to local governments such as prefectural governments to close schools. Subsequently, the Japanese government declared a state of emergency on April 7 for seven prefectures, including Tokyo, and on April 16 expanded the state of emergency to all 47 prefectures. Prime Minister Abe called on citizens to reduce social interaction by at least 70% and, if possible, by 80% by refraining from going out. In response to these government requests, people restrained from going out. For example, in March, the share of people in Tokyo leaving their homes was down by 18% compared to January before the spread of COVID-19, and by April 26, during the state of emergency, the share had dropped as much as 64%. As a result of people refraining from leaving their homes, the number of daily new infections in Tokyo fell from 209 at the peak to two on May 23, and the state of emergency was lifted on May 25. Unlike the lockdowns in China, the United States, and European countries such as Italy, restrictions during Japan's state of emergency had no legal binding force. There were no penalties such as fines or arrests for leaving the house during the state of emergency. The police did not warn anyone who was out on the streets. The situation in Japan was one of a "voluntary lockdown". Looking at the "Government Response Stringency Index" – a composite measure of nine response indicators published by the University of Oxford's Blavatnik School of Government – shows that the value for Japan of 47.22 at the end of April during the state of emergency was considerably smaller than those for France (87.96), the United States (72.69), the United Kingdom (75.93), Germany (76.85), Italy (93.52), and Canada (72.69).³ Instead, the value for Japan was essentially on the same level as that for Sweden (46.30). Looking at individual indicators, the status for "Restrictions on public gatherings" was "No restrictions" and that for "Closures of public transport" was "No measures," which is quite different from other countries. Similarly, with regard to "Stay-at-home requirements," restrictions in Japan were weaker than in other countries: while in Japan people were "recommended" to stay at home, in the United States and various European countries they were "Required not to leave the house with exceptions".²

The recent COVID-19 pandemic has also come at overwhelming health and economic costs to Latin America. In August, Brazil, Mexico, Peru, Colombia and Chile are among the top ten countries in terms of infections; Peru, Chile and Brazil are among the top ten in terms of deaths per hundred thousand inhabitants. To contain the spread of the virus, governments implemented lockdown policies of various degrees. Inevitably, these measures caused a sharp reduction of activity, a fall in employment and income, and a rise in poverty and inequality.³

¹ Yi-Chi Wu, Ching-Sung Chen, & Yu-Jiun Chan, "The Outbreak of COVID-19: An Overview", *Journal of the Chinese Medical Association*, Vol. 83, Issue 3, pp 217-22, March 2020.

² Tsutomu Watanabe and Tomoyoshi Yabu, "Japan's Voluntary Lockdown", *Covid Economics*, Issue 46, pp 1-31, 1 September 2020.

³ Nora Lustig, Valentina Martinez Pabon, Federico Sanz and Stephen D. Younger, "The impact of COVID-19 lockdowns and expanded social assistance on inequality, poverty and mobility in Argentina, Brazil, Colombia and Mexico", *Covid Economics*, Issue 46, pp 32-67, 1 September 2020.

It also happened in Indonesia. According to Indonesian Ministry of Finance noted at least eight losses caused by the outbreak of the virus. First, until April 11 more than 1.5 million employees broke down or termination of employment (Layoffs) and was formulated. Where 1.2 million workers came from the formal sector, 265,000 from the informal sector. Second, the Indonesian Purchasing Managers Index (PMI) below the 50 level is only 45.3 in March 2020. Third, more than 12,703 flights at 15 airports were cancelled throughout January-February, with details of 11,680 domestic flights and 1,023 international flights. Fourth, around Rp 207 billions lost revenues in the air service sector, with approximately Rp 48 billions lost donated by China's flights. Fifth, tourist numbers decreased to 6,800 per day, especially tourists from China. Sixth, Indonesian Hotel and Restaurant Association estimates that declining occupancy rates around 6,000 hotels in Indonesia can reach 50%. This could affect the decline of tourism foreign exchange more than half a year ago. Seventh, Indonesia's imports throughout January-March 2020 dropped 3.7% year to date (YTD). Eighth, inflation in March 2020 recorded at 2.96% year on year (yoy) was donated by gold price increases in jewelry as well as some food prices soaring. However, there are deflation on various chili commodities and air freight rates.⁴

As above stated, in fact, the problems occurred not only related to the medics but also economics. This will related to the continuity of the business, both a personal business and a business in a corporate corridor. As many as 800 companies in Banten Province have closed.⁵ A total of 96% of companies in Indonesia are affected by the corona virus pandemic or COVID-19. From this data, 57.1% of companies whose revenue decreased due to the corona pandemic, 39.4% of companies that stopped operating due to corona and 1% of companies whose revenues increased during the pandemic period.⁶ The above data shows a picture of difficult conditions on financial or financially distress for the company, which then impacts on the company's ability to pay its debts. Cases of the suspension of payment (PKPU) have an increasing trend in the second quarter of 2020. Based on the data from Commercial Courts in Indonesia, which are the Commercial Court of Central Jakarta, the Commercial Court of Semarang, the Commercial Court of Surabaya, the Commercial Court of Medan, and the Commercial Court of Makassar, were recorded 132 cases. This numbers are higher than the first quarter, which was only 102 cases. In total, there were 233 cases during the first half of 2020. It has covered 55% compared to the total PKPU cases in 2019 and 425 cases. As of the first semester of 2020, there have been 43 bankruptcy cases. Most cases occurred in the Central Jakarta Commercial Court with almost half of them, namely 20 cases, followed by the Semarang Commercial Court with 16 cases.⁷

The above is sufficient to provide an overview of the financial distress experienced by companies in Indonesia, and use practical solutions in the bankruptcy and Suspension of Payment (PKPU) mechanism based on Law No. 37 of 2004. Bankruptcy and PKPU are one of the means of resolving the existing debt and credit problems, apart from negotiations that can be carried out between companies and their creditors. The convenience provided by Law No. 37 of 2004, gives special interest for creditors and debtors to get legal protection. Granting bankruptcy or PKPU statements only with the minimum requirement of two creditors and

⁴ Susilawati, Reinpal Falefi, Agus Purwoko, "Impact of COVID-19's Pandemic on the Economy of Indonesia, *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)*, Vol. 3, No. 2, pp 1147-1156, 2020.

⁵ <https://zonabanten.pikiran-rakyat.com/banten/pr-23591621/gubernur-banten-ungkapkan-800-perusahaan-tutup-usaha-terkena-dampak-pandemi> (accessed on September 3rd, 2020).

⁶ <https://katadata.co.id/agungjatmiko/berita/5efc879e27b5b/kemnaker-catat-96-perusahaan-terkena-dampak-pandemi-corona> (accessed on September 3rd, 2020).

⁷ <https://www.cnbcindonesia.com/news/20200710092832-4-171639/ramai-kasus-pailit-perusahaan-saat-pandemi-ada-apa> (accessed on September 3rd, 2020).

having overdue and collectable debts is part of the convenience provided. The previous bankruptcy law and PKPU (faillissements verordening) did not provide such easy requirements, but still relied on the existence of an insolvency test. These requirements changed when Indonesia was hit by a monetary crisis, so that to make it easier for the creditors to get payment from debtors' assets, the bankruptcy and PKPU conditions were made. Of course, the current conditions, which is the COVID-19 pandemic, are not the same as the monetary crisis conditions, even though they both occur in Indonesia. The COVID-19 pandemic according to predictions by experts is something that is temporary, if it can be overcome. The faster the response, the sooner the pandemic will be over. The same thing has also happened to the world with the Spanish flu pandemic, which on average almost every country is exposed to for a maximum of 2 years. If we talk about the monetary crisis, the impact is permanent, but it does not happen when in a pandemic.

The requirements for bankruptcy and PKPU will trigger an increase in cases. The significant difference between the bankruptcy and PKPU schemes lies in the usefulness of the respective schemes. The bankruptcy scheme is suitable for people or business entities that are insolvent or are no longer able to pay their debts, so the next step is the liquidation of the debtor's assets to be distributed to creditors based on the principle of *pari passu pro rata parte*. The PKPU scheme is suitable for use with solvent people or business entities or those who still have the opportunity to be a going concern. This is actually in accordance with the conditions of the COVID-19 pandemic which does have a temporary impact nature. However, the PKPU scheme has dangerous consequences for the debtor as a business entity - if the debtor can not make the settlement with debtor's creditor or settlement proposal is not agreed, or the settlement is agreed but fails to implement it - it will result in the liquidation of the debtor's assets as a mean of article 1131 and article 1132 Indonesian Civil Code. In PKPU, the dominant parties involved are debtors and creditors, while the receiver appointed by the court is actually only in charge of managing the debtor's assets, which means administering debts and receivables and ensuring that debtor does not take actions that are detrimental to the interests of creditors. So that the debtor's business in PKPU still can be run by the debtor itself with all its limitations.

In UK, there is a scheme in company law known as the Deeds of Arrangement which also aims to save the company from the liquidation. The Deeds of Arrangement is a civil relationship between the debtor and its creditors which contains the total debts, the total assets of the debtor and the names and addresses of the creditors, as well as what benefits the creditors will get.⁸ Apart from the Deeds of Arrangement is the Administration Order. The Administration Order is an effort to provide a way of rescue for the existence of corporate businesses that are in times of financial difficulty. The goal is to save the company, or at least the company's business can be saved by being taken over by the administrator, no longer under the control of the directors.⁹ Slightly the same as the PKPU scheme where there is a suspension in debt payment so that there is settlement discussion between the creditors and debtor, but the difference is that the quorum of creditors is needed and also does not require publication if it is in the Deeds of Arrangement scheme, which of course will safeguard the reputation of the debtor's business.

The above scheme is something that has maybe not existed in Indonesia, while Indonesia currently needs an alternative model of debt restructuring, apart from the current one:

⁸ Frank H. Dixon, *Understanding Bankruptcy: The Essential Guide to all in Business*. Oxford: Oxford and Cambridge Business Press, 1994, p 95.

⁹ Sarah Riches & Vida Allen, *Keenan & Riches' Business Law*. Essex : Pearson Education Limited, 9th Ed, 2009, p 93.

negotiation, bankruptcy, and PKPU. It is interesting to examine whether the Deeds of Arrangement and Administration Order schemes can then become a new discourse for the subject of debt restructuring models in Indonesia, which become the topic of discussion in this paper.

Therefore, the author is interested in trying to convey the limitations and research questions in this paper, as follows:

1. What and how is the concept of Deeds of Arrangement and Administration Order according to United Kingdom law?

2. What are the prospects for the concept of Deeds of Arrangement and Administration Order for Indonesia during the COVID-19 pandemic?

Based on the research questions above, it can be seen that the objectives of this research are (1) knowing the concept of Deeds of Arrangement and Administration Order according to United Kingdom law, and (2) looking at the prospects for the concept of Deeds of Arrangement and Administration Order for Indonesia during COVID-19 pandemic.

2. Research Methods

This research is a normative juridical research. The main goal of this normative juridical research is that it can examine possibility of the application of the Deeds of Arrangement and Administration Order concepts according to United Kingdom Law in Indonesia, especially during COVID-19 pandemic. The author used secondary data in this research and obtains it by means of literature study, where the author searched the literature in accordance with legal materials related to the object of this research, which consists of: (1) primary legal materials, that related laws and regulations; (2) secondary legal material, such as scientific articles and related matters, and (3) tertiary legal materials, in the form of a language dictionary. The data that has been obtained above is processed with a qualitative approach supported by a comparative legal analysis.

3. Research Results and Discussion

3.1. Concept of Deeds of Arrangement and Administration Order

In the UK, several methods of bankruptcy pre-rehabilitation schemes are available for debtors. Indeed it has submitted that it gives time and opportunity to creditors and debtors to negotiate a mutual practical settlement scheme.¹⁰ The two of those schemes are, the Deeds of Arrangement and Individual Voluntary Arrangement. Deeds of Arrangement is intended for all debtors, including corporations and Individual Voluntary Arrangements are intended for individual debtors. In principle, in Deeds of Arrangement, the debtor must persuade its creditors not to bankrupt the debtor and accept Deeds of Arrangement, because a Deeds of Arrangement should provide more better value to creditors than creditors to sell all debtor assets to pay their debts. The process in Deeds of Arrangement involves the trustee to take over the debtor's assets and provide benefits to the creditors. Trustee in this case is the party that supervises the Deeds of Arrangement to run well, whereas in principle the legal relationship that appears in the Deeds of Arrangement is the civil relationship between the debtor and its creditors. Deeds of Arrangement offered by the debtor must be based on the principle of creditors best interest which will be discussed and approved in a meeting. Deeds of Arrangement must be registered in a Registration Office designated by the Ministry of Trade which must be made within 7 days

¹⁰ G. Radhakrishna, "Winds of Change In Malaysia's Insolvency Laws Part 1: Bankruptcy", *Malayan Law Journal*, vol. 3, p clxvii, 2012.

before the arrangement is carried out.¹¹ The Deeds of Arrangement must include the total debt, the total assets of the debtor, and the names and addresses of the creditors. A copy of the Deeds of Arrangement must be sent to the County Court in the area where the debtor resides or conducts business.¹² In the Deeds of Arrangement, firstly, a trustee should be selected by the debtor. Trustee is a person who have qualifications as insolvency practitioners. The creditors can further object to the appointment of the trustee and may state that they will agree with the Deeds of Arrangement if there is an additional trustee. In this case, a new agreement is required which needs to be prepared to replace or add to the previously appointed trustee.¹³

The Deeds of Arrangement must be approved in advance by most creditors, it must also involve at least 3 creditors. The agreement must be reached within 21 days since the Deeds of Arrangement being registered. Any creditors who agree that the Deeds of Arrangement can not proceed will be able to apply for the debtor to be declared bankrupt. Deeds of Arrangement becomes void if there are creditors who disagree with the process and the creditors represent the most votes in the meeting. If it fails, then each creditor can submit the debtor to be declared bankrupt. Deeds of Arrangement is different from bankruptcy process which there is no need for publication regarding the arrangement. But anyone can get information about Deeds of Arrangement from the County Court.¹⁴

The content of the Deeds of Arrangement, as mentioned earlier, should provide an overview of the benefits for creditors. It must involve the transfer of assets to the trustee, or an ongoing agreement or take over the debtor's business, with debt repayment as the main object. The trustee will send a report to all creditors every 6 months. The report, which contains proof of receipt and payment, is also sent to the Ministry of Commerce at any time. As a check and balance, at the request of most creditors, they can ask the Ministry of Trade to conduct an inspection of the trustee's account. If the trustee further realizes that the agreement in the Deeds of Arrangement has the potential to be canceled, the trustee must notify the creditors as soon as possible.¹⁵ The outcomes of Deeds of Arrangements as they are currently being used support the conclusion that alternatives more favourable than liquidation are being achieved.¹⁶ The change in attitudes towards the incurring of debts, the development of a company rescue culture, and the constant innovation of insolvency practitioners has reduced the difficulty in accommodating the rescue of large, complex enterprises, including those that were plunged into financial distress in the aftermath of the global financial crisis.¹⁷

In addition to the Deeds or Arrangement above, United Kingdom Law also recognizes the concept of Administration Order which is stipulated in the Schedule B1 Insolvency Act 1986. Administration Orders are intended to provide a way to save the existence of corporate businesses that are in times of financial difficulty. The purpose of the Administration Order is to save the company, or at least the company's business can be saved by being taken over by the administrator, and no longer under the control of the directors. The ultimate goal is to maximize the value of the debtor company's business assets. Once an Administration Order is

¹¹ Frank H. Dixon, *Op. Cit.*

¹² *Ibid.*, p 95.

¹³ *Ibid.*, p 94

¹⁴ *Ibid.*, p 95

¹⁵ *Ibid.*

¹⁶ Mark Wellard, "A sample review of Deeds of Company Arrangement under Part 5.3A of the Corporations Act", *Australian Insolvency Journal*, vol. 26 No. 2, p 17, 2014.

¹⁷ James Edelman, Henry Meehan and Gary Cheung, "The evolution of bankruptcy and insolvency laws and the case of the deed of company arrangement", a paper on *The Common Law and Finance: Perspectives from the Bench*, at the University of Oxford, on 14 January 2019, *Lloyd's Maritime and Commercial Law Quarterly*, p 601.

placed, there is no liquidation of the company, or enforcing bills, holding property rights, or even leasing agreements with the company.¹⁸ In practice, the Administration Order will prioritize certain categories of creditors, such as secured creditors and preferred creditors. In carrying out the objectives of the Administration Order, the distribution of assets of the debtor company will be primarily given to secured creditors and preferred creditors. In the end, where company funds are insufficient to pay unsecured creditors, the administrator must not overpower the interests of the unsecured creditors by selling the debtor's company assets cheaply in order to get the proceeds from the sale quickly and pay to that priority category. The distribution of the company's assets can be done if the administrator thinks that saving the company is no longer possible. This means that the administrator must perform in accordance with the main purpose of the Administration Order, that is a corporate rescue, and if this occurs it can not be done based on the professional judgment of the administrator, then the administrator in accordance with his / her authority will distribute the assets of debtor to the creditors for the benefit of them.¹⁹

The Administrator in an Administration Order according to United Kingdom law has functions to: (i) save the company so that it remains a going concern; (ii) achieve better results for creditors than if the results obtained through liquidation; (iii) realizing the value of assets in the context of distribution to the secured or preferred creditors. In carrying out the realization of asset value for secured creditors or preferred creditors, this can be done if the administrator considers that the debtor's company will not be saved, or the administrator considers that it will not get a better result than the value if the liquidation process is carried out and the administrator assesses that there is a loss for creditors, if the Administration Order process is continued.²⁰

In principle, the appointment of administrator is carried out by the court by applying to the court in an Administration Order, which can be carried out by the debtor company, the director of the debtor company, and the creditors, which is regulated in the Insolvency Act 1986. Creditors here are categorized as floating charge.²¹ According to investopedia, this type of creditors is illustrated as follows:²²

Floating charges, in contrast, relate to the current assets of a company, which are subject to change. These securities are tied to an asset, which the borrower may dispose, sell or transfer in the normal course of business. To illustrate, imagine a business takes out a loan and secures it with its inventory. Although the inventory is collateral on the loan, the borrower can still sell and deal with it as usual. As the borrower sells, restocks and changes his inventory, it shifts or floats in value, thus the phrase floating charge. However, if the borrower defaults on repayments, the floating charge security crystallizes into a fixed charge security.

In wikipedia it is mentioned about floating charge as follows:²³

A floating charge is a [security interest](#) over a fund of changing assets (e.g. stocks) of a [company](#) or other [artificial person](#), which “float” or “hovers” until the point at which it is converted into a fixed charge, at which point the charge attaches to specific assets of the business.

¹⁸ David Kelly, Ruby Hammer & John Hendy, *Business Law*. London : Routledge, 2nd Ed., 2014, p 432.

¹⁹ Sarah Riches & Vida Allen, *Op.Cit.*, p 193.

²⁰ David Kelly, Ruby Hammer & John Hendy, *Op.Cit.*, p 432.

²¹ *Ibid.*, p 432-433.

²² Investopedia, *Floating Charge*, https://www.investopedia.com/terms/f/floating_charge.asp (accessed on September 4th, 2020).

²³ *Ibid.*

Before deciding, the court firstly will examine whether the condition of the debtor company can not or should no longer pay its debts and check that the Administration Order can be the best way according to the purpose of the Administration Order. If the court then does not decide on the Administration Order, it may be possible for the court to make other appropriate decisions, such as treating the application for the Administration Order like a request for winding up. This means that if the court sees that the debtor company is not eligible to enter the Administration Order, and the court may judge that the company is worthy of winding up, and decide the company to liquidate. The Administration Order is actually a process of postponing invoicing and enforced on the debtor company, and winding up will be carried out if the administrator's appointment is revoked. In the Administration Order, all invoices will be said to be stay or can not be forced for payment.²⁴

The Administrator can also be appointed outside the court without the consent of the court. This is regulated in the Enterprise Act 2002, which refers to the provisions of the Insolvency Act 1986. This out of court application can be made by debtor companies, debtor company directors, and creditors who have collateral which is categorized as floating charge.²⁵

The debtor or the directors of the debtor company will be permitted by law to appoint an administrator out of court for the following reasons: (i) if the company has not administered orders within the previous 12 months; (ii) the debtor company can not or should be declared unable to pay all of its debts; (iii) if there is no application related to winding up or administration order and the company is not in the liquidation process; or (iv) no previously appointed administration receiver.²⁶ Sarah Riches and Vida Allen²⁷ added that the appointment of administrator in this condition could also be done if the debtor company was not in a moratorium period regarding the company that failed in the company voluntary arrangement within the previous 12 months.

The creditors who have collaterals can appoint administrator in out of court proceedings if: (i) the creditor is categorized as a floating charge holder of all debtor assets; (ii) the collateral can be executed by the creditor himself; (iii) the creditor has notified other creditors that that creditor has priority over the claims of other creditors; (iv) the debtor company is not in the process of liquidation; or (v) no previously appointed receiver or administrator.²⁸ In addition, according to Sarah Riches and Vida Allen,²⁹ the collateral referred to above mentioned can be executed on the date of the appointment of the administrator.

The consequence of the Administration Order is that the liquidation order will be postponed, if the administrator is appointed by a floating charge creditor, or the liquidation order will be revoked if the administrator is appointed by the court. When the Administration Order is effective, the liquidation process can not be continued. Creditors also can not perform the collection actions in order to obtain payment without the approval of the administrator, and all debtor company documents must be given a note that the debtor company is in the administration process.³⁰ These consequences are regulated in the provisions of the Schedule B1 Insolvency Act 1986, which in principle regulates as follows:³¹

²⁴ Sarah Riches & Vida Allen, *Op.Cit.*, p 193.

²⁵ David Kelly, Ruby Hammer & John Hendy, *Op.Cit.*, p 432-433.

²⁶ *Ibid.*, p 433.

²⁷ Sarah Riches & Vida Allen, *Op.Cit.*, p 194.

²⁸ *Ibid.*

²⁹ Sarah Riches & Vida Allen, *Op.Cit.*, p 193-194.

³⁰ *Ibid.*

³¹ Schedule B1 UK Insolvency Act 1986.

Whether appointed by the court or not, under the schedule appointment may be out of court, an administrator is an officer of the court and an agent of the company and can only be appointed if qualified to act as an insolvency practitioner. An administrator can not be appointed if the company has already been put into administration. Thus, an appointment out of court can not effectively be made if the court has already made an appointment and vice versa, although this does not affect provisions relating to the replacement of an administrator nor the appointment of additional administrators, if required. A company can not be put into administration if the members have passed a resolution for a voluntary winding up or a compulsory winding up order has been made by the court.

The Administration Order process requires the administrator to perform tasks that the debtor company itself can not do. The administrator's job is to notify the Company Registration Office and to all creditors of his or her appointment as an administrator. The next task is to ask all matters related to the company, including the assets of the debtor company, the debtor's company responsibility, also details of creditors and assets that are guaranteed to creditors. In addition, it is the administrator's job to create a statement of action plan within 8 weeks since the appointment to be submitted to the Company Registration Office and creditors. The most important task is to prepare for the creditors' meeting with all its meetings to consider proposal from the administrator. During the administration process, the administrator has the authority to do everything necessary regarding the management of the debtor company, including replacing or appointing directors, paying the secured creditors and preferred creditors without court approval, paying unsecured creditors with court approval, protecting debtor company assets, and selling debtor company assets. The Administration Order period is usually 12 months, and can be extended for another 6 months with creditors approval, or longer with court approval. If the administrator considers that the purpose of his or her appointment as administrator has been achieved, the administrator will immediately notify the creditors, the court and the Company Registration Office. On the other hand, if the administrator judges that no purpose of his or her appointment as administrator has been achieved, the court must be notified, and the court will consider terminating the appointment of the administrator. The creditors have the right to oppose this administrator's actions through the court.³²

The Administration Order will expire within 1 year from the time the appointment is effective. This period can be extended by the court for a period of time at the discretion of the secured creditors and 50% of the value of the unsecured creditors for a maximum of 6 months. Prior to this period, the court may end the Administration Order with a request from the administrator. In practice, the administrator's request is made if the Administration Order objective is achieved, but it could happen because based on the results of the creditor meeting, the administrator assessed that the Administration Order's objective was not achieved, so the administrator submits a request to terminate the process to the court. If the Administration Order can not achieve its objectives, it will lead to other bankruptcy procedures, such as winding up.³³

A major problem in putting the administration in place has always been the difficulty in holding off individual creditors from taking legal action driving the company in to liquidation. An Administration Order would create a moratorium giving breathing space for the company. However, pursuant to section 9(2) of the Insolvency Act 1986 a notice of the application for administration order has to be given to any person who is entitled to appoint an administration receiver. A floating charge holder is entitled to appoint his or her own receivers even when an

³² David Kelly, Ruby Hammer, & John Hendy, *Op. Cit.*, p 433-434.

³³ Sarah Riches & Vida Allen, *Op. Cit.*, p 195-196.

administration order is in place. Once an Administration receiver has been appointed by the floating charge holder, it's main priority is to realise and repay the lender and thus other parties are not attended to. Also such floating charge holders had the power to veto the appointment of an administrator over the company. Therefore it is vital to have full co-operation and consent of fixed and floating charge holder in order for the administration to be successful. The old administration procedure was not easily available and when it was available only handful of companies were able to make use of it. Under the new scheme, Chargee will retain their existing place in the order of the creditors as they hold a security over the company's business and assets they can control the process. If the charge holder is not persuaded to hold back from enforcing the security.³⁴

3.2. Prospect of the Deeds of Arrangement and Administration Order concept for Indonesia During COVID-19 Pandemic

The concept of the Deeds of Arrangement and Administration Order in the perspective of Indonesian law is in principle well known in Indonesian bankruptcy law. The concept of Deeds of Arrangement is a civil relationship between debtors and creditors. In this case the debtor must be good at persuading its creditors to get an agreement. A Deeds of Arrangement in principle gives creditors confidence that this scheme will provide a better profit to creditors than if the debtor's assets are liquidated and distributed. This condition is actually the same terms as what is in the bankruptcy and PKPU. In bankruptcy, there is a settlement scheme where the debtor offers settlement with its creditors, and if no agreement is reached, the debtor's assets become insolvency, and then cleared up for distribution to creditors, this is regulated in Article 144 and Article 178 paragraph (1) Law No. 37 of 2004. Within PKPU, there is a settlement scheme regulated in Article 222 of Law No. 37 of 2004 and if the settlement is not reached beyond the suspension period, the debtor is declared bankrupt and the debtor's assets are in a state of insolvency, and liquidation is carried out, this is regulated in Article 289 and Article 290 of Law No. 37 of 2004. The concept of Deeds of Arrangement also relies on the creditors' approval so that the process can be continued, most of the creditors, which involve at least three creditors, are similar in the case of bankruptcy and PKPU. In the bankruptcy, the creditor agreement is regulated in Article 151 of Law No. 37 of 2004 with a creditor quorum of more than one-half of the total number of unsecured creditors who attended the meeting and whose the invoices were recognized or temporarily recognized and represented at least two-thirds of the total amount of the unsecured creditors. In PKPU, the creditors' approval is regulated in Article 281 paragraph (1) of Law No. 37 of 2004 with the same quorum value as the bankruptcy proceedings, but calculated for the unsecured creditors and secured creditors. The concept of Deeds of Arrangement is a trustee as a third party who acts to carry out what will be agreed in the arrangement, including accepting the delivery of the debtor's assets and taking over the debtor's business. In bankruptcy and PKPU is also similar to this concept, where there is a trustee in bankruptcy who is in charge of managing and settling the assets of the debtor and the receiver in PKPU who is in charge of managing the debtor's assets. The difference between both is that the trustee in the Deeds of Arrangement is chosen by the debtor and can be challenged by the creditors, if they do not agree. While in bankruptcy and PKPU, the applicant chooses the trustee and receiver, which can be the debtor and the creditors.

The difference between the concept of Deeds of Arrangement with bankruptcy and PKPU is that registration is carried out at the Registration Office under the Ministry of Trade,

³⁴ No author, "Strengths and Weaknesses of the Administration Order", <https://www.lawteacher.net/free-law-essays/company-law/administration-order-company-law.php> (accessed on November 4th, 2020).

which is then sent to the County Court at the debtor's domicile, while applications for bankruptcy and PKPU are registered at the Commercial Court at the domicile of the debtor, as regulated in Article 3 and Article 224 of Law No. 37 of 2004. Another difference is that the court in the Deeds of Arrangement concept is in a decisive position at the end of the agreement in the arrangement, whereas in bankruptcy and PKPU, the court always supervises the process that occurs in every settlement, both in bankruptcy and PKPU in the presence of the supervisory judge. Another difference is that in the Deeds of Arrangement there is no need for publication, whereas in the bankruptcy process and PKPU it requires publication, even from the beginning it was decided by the court, which is regulated in Article 15 paragraph (4) and Article 17 paragraph (1) of Law No. 37 of 2004 for the bankruptcy process and Article 226 paragraph (1) for the PKPU process.

The concept of Administration Order in Indonesian law, although there are differences, has been recognized in Article 104 paragraph (1) and (2) Law No. 37 of 2004. This provision in principle states that with the approval of the provisional creditor committee, the trustee can continue the business of the debtor who is declared bankrupt even though the decision on the bankruptcy statement is filed for an appeal to the Supreme Court. If the creditor committee is not appointed, the approval is in the hand of the Supervisory Judge. The same thing also opens up opportunities in the provisions of Article 179 paragraph (1) of Law no. 37 of 2004. This provision regulates the trustee or creditors who can decide whether to continue the debtor's business or not, if there is no settlement proposal from the debtor or no agreement is reached in the settlement. Approval of this mechanism is regulated in Article 180 paragraph (1) of Law No. 37 of 2004 which regulates the quorum of approval of most creditors.

The implementation of the above provisions was carried out in the case of PT. Dirgantara Indonesia, where the directors of the company asked the court to continue running its business until the cassation process was decided. At the time the application was submitted, PT. Dirgantara Indonesia has been declared bankrupt by the Commercial Court.³⁵ This has also been discussed in the case of PT. Starlight Prime Thermoplas which was declared bankrupt in 2017.³⁶ Another similarity is that if the Administration Order has been executed, liquidation is not allowed, forcing invoices, holding debtor assets, and other matters related to debtor assets. This is the same as Indonesian law, both in bankruptcy and PKPU. In general, bankruptcy and PKPU are the way to avoid competing over debtor assets if at the same time several creditors are collecting receivables from the debtor. Bankruptcy and PKPU are also the way to avoid the existence of creditors who hold property security rights claiming their rights by selling the debtor's property without paying attention to the interests of the debtor or other creditors.³⁷ In the bankruptcy, any acts as in the Administration Order above are regulated in Article 24, Article 25, Article 29, Article 36, Article 37, Article 38, and Article 39 of Law No. 37 of 2004. Article 24 regulates the debtor's right to control its lost property, while Article 25 regulates the allocation after the bankruptcy decision can not be paid from the bankrupt property unless which is profitable for the bankrupt property. Article 29 governs all claims against bankruptcy property must be dropped by law, while Article 36, Article 37 and Article 38 provide for alliances that occur with bankrupt debtor which in principle can not be continued, including Article 39 regarding termination of employment with the debtor's employees. In PKPU, the same thing in the Administration Order is regulated in Article 242, Article 245, Article 249, Article 250,

³⁵ <https://www.hukumonline.com/berita/baca/hol17613/dalam-status-pailit-pengadilan-izinkan-pt-di-tetap-menjalankan-usaha/> (accessed on September 4th, 2020).

³⁶ <https://nasional.kontan.co.id/news/kurator-ingin-bisnis-starlight-prime-tak-dimatikan> (accessed on September 4th, 2020).

³⁷ General Explanation on Indonesian Law No. 37 of 2004 Concerning Bankruptcy and Suspension of Payment.

Article 251, and Article 252 of Law No. 37 of 2004. Article 242 regulates the debtor's right not to be forced to pay its debts, while Article 245 regulates the payment of debt can only be done jointly to the creditors later after the reconciliation process is reached or the debtor's property is insolvency after not being able to make settlement with its creditors. Article 249, Article 250, Article 251, and Article 252 are the same provisions governing Article 36, Article 37, Article 38, and Article 39 above, but they are provided for the PKPU process. Another similarity is the feasibility of the Administration Order process determined by the court, and the same is also done in bankruptcy and PKPU.

The difference in the concept of the Administration Order with bankruptcy and PKPU is that the takeover of the management of the debtor company in the Administration Order is mandatory as long as a decision has been made regarding this matter, while the takeover of the management of the debtor company in bankruptcy and PKPU is an optional. Another difference also appears in the applicant. Applicants in the Administration Order are debtor, debtor directors and creditors in the floating charge category. Applicants in bankruptcy and PKPU are debtors and creditors, and not limited by any type of creditors, whereas to apply for management of debtor company in bankruptcy based on Article 104 of Law No. 37/2004 is only a trustee initiative approved by the creditor committee or the supervisory judge, and based on Article 179 paragraph (1) of Law No. 37 of 2004 only initiated by the trustee or creditors. Another thing that is different is that the administrator in the Administration Order can be appointed outside the court without court approval, whereas in bankruptcy and PKPU, the appointment of trustee and receiver must go through the court. The administrator will take over duties in managing the debtor company, including making an action plan within 8 weeks of his or her appointment to be submitted to the Company Registration Office and creditors, which is not regulated in bankruptcy and PKPU. The administrator's next step is to prepare a proposal for corporate rescue which will be submitted to the creditors. This is the difference from the settlement scheme in bankruptcy and PKPU where the debtor is entitled to submit the settlement proposal.

Based on the comparative legal analysis above, the differences that arise in the analysis are actually an added value for the debt settlement process in Indonesia, especially during the COVID-19 pandemic. At least the added value is that there are alternatives that can be used if the concept is facilitated by Indonesian law. The advantage of Deeds of Arrangement is that there is no publication and the process is mostly done out of court, even though the result is ended by the court verdict. The advantage of the Administration Order is that the takeover of the debtor company management is mandatory, which means that the company leader will be handled by an administrator who is indeed a professional in insolvency and business practitioner, including those who can request an Administration Order are debtor or certain creditors, which means that deliberate movements to destroy the corporation will be limited by itself. The most important advantage in the Administration Order is that the corporate rescue proposal is prepared by the administrator. Corporate rescue should really be a culture in every country. Just like every patient has the right to be cured. Every company when it is expiring financial distress should be given a chance to be rescued. Corporate rescue should be encouraged because it could give everyone a hope, at the meanwhile, give the company a second chance to 'launch'.³⁸

The COVID-19 pandemic in its character is actually a temporary condition, as long as it can be handled properly. This means that the impact of the pandemic on business continuity

³⁸ Mei Yang & Xiaobing Li, "The History of Corporate Rescue in the UK", *Asian Social Science*, Vol. 8, No. 13, p. 26, 2012.

for the company is actually temporary. Even so, no one has ever known for sure when this COVID-19 pandemic will end. Regarding the temporary nature, insolvency of the company during the pandemic period also actually follows the characteristics of these condition, which means that it can be gradually restored if the handling of the pandemic is optimal. At the time of writing this text, the COVID-19 pandemic in several parts of the world is still ongoing, including Indonesia, since December 2019 when the first COVID-19 case was reported. This means that it has been running for 10 months and the impact on the company will vary, of course. Not all companies have the ability to last long enough, some will only last a few months, and some may last up to the next 1 or 2 years.

During this period of survival, companies will make every efforts in their ability to try to get up or create new innovations, even though it is still in a pandemic. The problem of corporate debt will certainly be a problem in itself. As stated above, Indonesian law has a mechanism for fast debt settlement through bankruptcy and PKPU, with the threat of liquidation if the debtor fails to cooperate with its creditors. Indonesian law also has other litigation mechanisms through civil cases to solve debt problems, although this can take a long time. Indonesian law also allows the debt settlement through non-litigation scheme, based on Law No. 30 of 1999 concerning Alternative Dispute Resolution and Arbitration, either by way of negotiation, mediation, conciliation, or arbitration. However, this non-litigation scheme does not stop the creditors from using the bankruptcy and PKPU schemes, which means that the survival of the company's business will also be threatened.

The concept of the Deeds of Arrangement and Administration Order is a non-litigation solution but temporarily stops creditors' intention to bring in the bankruptcy and PKPU scheme, as long as the arrangement and administration schemes have not been resolved. Bankruptcy and PKPU also provide opportunities for debtor and creditors to bargain, but because they are in-the court and litigative in nature, the pressure on the debtor's hand will be much heavier than non-litigation. Bankruptcy and PKPU is still influenced by the Creditor Bargain Theory, which a part of classic insolvency law. The Creditor Bargain Theory reflects the views endorsed by proceduralists, which states that the existence of insolvency law is for the exclusive benefit of the creditors of the insolvent. Whilst the theory acknowledges that there may be other interested parties in the insolvent company, the interests of the creditors should prevail.³⁹ The way the insolvency law has developed it has meant that when a debtor company defaults on payment of its debts as when due and is legally insolvent, the shareholders' interests are usually supplanted by the creditors' interests. It would seem that this understanding is so deeply embedded in the conscience of the legislators and evident in their actions that any intervention to the contrary would have to be in exceptional circumstances.⁴⁰

The concept of the Deeds of Arrangement and Administration Order with bankruptcy and PKPU can both be resolved in a short time and a definite time frame, although the bankruptcy and PKPU scheme in the bargaining context does not have a time limit, but rather emphasizes the power of trustee and / or receiver and the supervisory judge who determine the time frame. The concept of the Deeds of Arrangement which is contractual non-litigation and the Administration Order which provides a better corporate management role is the right solution during the COVID-19 pandemic rather than bankruptcy and PKPU, as well as other litigation. The relationship between the temporary character of the COVID-19 pandemic

³⁹ J. H. Jackson & R. Scott, "On the Nature of Bankruptcy: An Essay on Bankruptcy Sharing and the Creditors' Bargain", *Virginia Legal Review*, vol. 75, p. 160, 1989.

⁴⁰ G. McCormack, "Control and Corporate Rescue – An Anglo-American Evaluation", *The International & Comparative Law Quarterly*, vol. 56, p. 533, 2007.

condition is the basis of this thought, so a solution concept that leads to maximization of the corporate rescue rather than liquidation is needed. It is time for us to think differently. As a creditor, think that creditor can be paid without any assets liquidation occur and as a debtor, think that debtor can get help and make an increased economic-value for the sake of the creditors. Even UK had a history of insolvency law with a different perspective, at first was a liquidation perspective, and now is a corporate rescue perspective. According to Paul J. Omar and Jennifer Gant,⁴¹ the reforms in UK Insolvency Law, were brought into force at the same time over 2003-2004, constituting a radical change to almost every part of the insolvency framework. As the effects of globalisation and recession have affected business practices and regulation over the period since the promulgation of the reforms, so too must insolvency systems evolve to meet the changing paradigm of economic recovery. In so doing, modern insolvency systems with effective forms of corporate rescue can play their part in recovering from the financial crisis by helping to create an environment where business failure and associated unemployment can be mitigated.

In reference to practical application, technical costs are often applied which realises that the stronger competitor, principle or result should dictate the flow. The notion believes that the market provides the answers to the problems that exist in a particular area. The Insolvency Practitioners have heavily influenced how administration is to be interpreted and in turn have been responsible for the rise in alternative rescue strategies such as pre-packs being deployed. This can be read in conjunction with dynamic efficiency which describes the ability of a given system to evolve and ultimately adapt the changing needs of a given market. It will be suggested that corporate rescue methods has evolved to the needs of the business world.⁴²

In terms of the actors who participate in a company their legitimate expectations should control how the company is run as well as how potential financial distress is dealt with. Concerns surrounding the legitimacy of corporate rescue have posed some interesting questions. Can administration be said to offer the best deal for a distressed company? Or has corporate rescue been modified so that a strategy has developed, which better suits the needs of businesses? This thinking inclines us to lean against the latter and conclude that the current formal administration process does not fully capture commercial practice, and survives only by categorising inconsistent elements as exogenous. Whilst the legal uncertainty can not be eliminated, it can only be managed and this has created a two-tier system whereby an informal approach has been taken.⁴³

4. Conclusion

The COVID-19 pandemic has an impact to all countries, including Indonesia. One of the visible impacts is a decrease in the rate of economic growth, which is caused by the company not being able to carry out its business optimally and hampering its purchasing power and other supporting infrastructure. This, of course, raises the problem of not paying off the company's debt, which has an impact on creditors' demands. The problem of debt and receivables in Indonesia can actually be resolved with several schemes, both non-litigation, by negotiation, mediation, consolidation and arbitration, as well as by litigation in civil cases also bankruptcy

⁴¹ Paul Jo. Omar & Jennifer Gant, "Corporate Rescue in the United Kingdom: Ten Years after the Enterprise Act 2002 Reforms", a paper for Colloquium on "Benchmarking Voluntary Administration on its 20-Year Anniversary" organised by the Bankruptcy and Insolvency Law Scholarship Unit at the Adelaide Law School, Adelaide, Australia on 26 July 2013.

⁴² John Michael Wood, *Corporate Rescue: A Critical Analysis of its Fundamentals and Existence*, PhD Thesis on School of Law, Centre for Business Law and Practice, the University of Leeds, 2013, p 229.

⁴³ *Ibid.*

and PKPU. All these methods have weaknesses and are not in accordance with the temporary characteristics of the COVID-19 pandemic. This character must be read by legislators to create new concepts that harmonize this temporary nature. The concept of the Deeds of Arrangement and Administration Order according to United Kingdom law is a concept that can be used in the settlement of such temporary nature of debt and credit, where what the company is most afraid of is the liquidation effort imposed by its creditors. The concepts of the Deeds of Arrangement and Administration Order are similar to the bankruptcy and PKPU schemes, although there are differences. The difference between the concept of the Deeds of Arrangement with bankruptcy and PKPU is the registration, the agreement is passed on a non-litigation basis but the final determination is in the hands of the court, and no publication is required. The difference between the Administration Order concept and bankruptcy and PKPU is that the takeover of the debtor's company management is mandatory, in relation to the applicant, the administrators can be appointed outside the court without court approval, and the administrator will make a corporate rescue proposal.

In the Deeds of Arrangement and Administration Order, efforts to force liquidation by creditors can not be carried out, as long as the process of the scheme has not been completed. The concept of the Deeds of Arrangement which is contractual non-litigation and the Administration Order which provides a better corporate management role is the right solution during the COVID-19 pandemic rather than bankruptcy and PKPU, as well as other litigation. The temporary character of the COVID-19 pandemic condition is the basis of this thought, so a solution concept that leads to maximization of the corporate rescue rather than liquidation is needed.

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