

CORPORATE INSOLVENCY LAW: A COMPARATIVE STUDY OF THE RIGHTS OF COMMERCIAL CREDITORS AND DEBTORS IN SRI LANKA AND THE UNITED KINGDOM

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1. Introduction

The research identifies a major problem in Sri Lanka's insolvency framework, which, heavily influenced by British colonial law, remains predominantly creditor centric and is governed by the Company Act No.7 of 2007. Therefore, this research examines the comparative legal frameworks governing corporate insolvency in Sri Lanka and the UK, focusing on balancing the rights of commercial creditors and debtors.

2. Research Methodology

The study employs a black-letter approach, comparative analysis, and qualitative research methodology to explore the effectiveness of these laws and their impact on economic stability, business continuity, and financial fairness, utilizing both primary sources, such as statutes and case laws, alongside secondary sources, like scholarly articles and institutional reports.

3. Findings and Discussion

The findings indicate that Sri Lanka's creditor-prioritized insolvency law hinders business continuity and economic growth. Mechanisms like fraudulent preference and Paulian actions in Sri Lanka primarily protect creditors but do not provide the same balance of debtor rights seen in the UK's legal framework. In contrast, the UK's insolvency laws include mechanisms such as administration, designed to rescue businesses, and Company Voluntary Arrangements (CVAs), which facilitate negotiated settlements between creditors and debtors. The absence of mechanisms like the UK's administration process results in limited options for distressed businesses, leading to premature closure.

4. Conclusion and Implications

Drawing on the UK's legal framework as a model, this study recommends that Sri Lanka introduce mechanisms for debtor rehabilitation and adopt reforms that promote a fairer balance between creditor and debtor rights, thereby fostering economic stability and business resilience.

Keywords: Corporate insolvency, Liquidation, Rehabilitation, Sri Lanka