

NEW SOUTH WALES
BAR ASSOCIATION
COMMERCIAL LAW SECTION

Covid-19 related developments in commercial law and practice

This document summarises recent legislative and judicial developments relevant to commercial practice in light of challenges posed by the COVID-19 pandemic. It does not constitute legal advice and readers should undertake their own research and seek up to date advice relevant to their particular circumstances.

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Insolvent trading, statutory demands and bankruptcy notices in the period to 31 December 2020

As part of the *Coronavirus Economic Response Package Omnibus Act 2020* (Cth) which took effect on 25 March 2020, three important sets of changes were introduced into the Corporations and Bankruptcy legislation to assist in avoiding unnecessary insolvencies during the course of the pandemic. The changes, which initially came into force for a period of six months, were later extended to 31 December 2020: *Corporations and Bankruptcy*

Legislation Amendment (Extending Temporary Relief for Financially Distressed Businesses and Individuals) Regulations 2020.

First, there is a “temporary safe harbour” defence to insolvent trading. The new s 588GAAA of the *Corporations Act 2001* (Cth) provides that the insolvent trading provisions in s 588G(2) do not apply in relation to a debt incurred by a company if the debt is incurred:

- (a) in the ordinary course of the company’s business;
- (b) during the period from 25 March 2020 to 31 December 2020; and
- (c) before any appointment during this period of an administrator or liquidator.

There are also provisions with regard to the onus of proof of the temporary defence and its application to holding companies in relation to the debts of their subsidiaries. Although the defence provides relief to directors from the consequences insolvent trading, it is important to bear in mind that the company remains liable for debts incurred.

Secondly, and again only in the period from 25 March 2020 to 31 December 2020, two critical changes were made to the statutory demand regime: (1) the threshold for issuing a statutory demand on a company was \$20,000 (rather than \$2,000) and (2) companies had six months (rather than 21 days) to respond to statutory demands served on them (*Corporations Act* s 9, definitions of “statutory minimum” and “statutory period”; *Corporations Regulation* 5.4.01AA). This was to reduce the ability of creditors to resort to statutory demands to require outstanding debts to be paid.

Thirdly, corresponding changes were made to the bankruptcy legislation. For bankruptcy notices issued, and petitions and declarations presented, in the period from 25 March 2020 to 31 December 2020: (1) the threshold for initiating bankruptcy proceedings was \$20,000 (rather than \$5,000); (2) debtors had 6 months (rather than 21 days) to respond to a bankruptcy notice; and (3) the period of protection a debtor obtained on presenting a declaration of intention to present a debtor’s petition was 6 months (rather than 21 days) (*Bankruptcy Act 1996*, s 5, definitions of “stay period”, “statutory minimum”, “statutory period”; *Bankruptcy Regulations* 4.02AA, 4.10A).

Insolvency and Bankruptcy from 1 January 2021

Subject to an exception for companies eligible for temporary restructuring relief (referred to below), the reforms outlined in the previous section were not extended beyond 31 December 2020. However, the *Corporations Amendment (Corporate Insolvency Reforms) Act 2020* (Cth) and the *Corporations Amendment (Corporate Insolvency Reforms) Regulation 2020* (Cth) made a number of permanent changes which take effect from 1 January 2021.

First, a new Part 5.3B has been inserted into the *Corporations Act 2001* (Cth). This Part introduces a new restructuring process for eligible companies, allowing the company to retain control of its business, property and affairs while it develops a plan to restructure its affairs with the assistance of a small business restructuring practitioner, and allowing it to enter into a restructuring plan with creditors. To be eligible, inter alia, a company's total liabilities may not exceed \$1m (Corporations Regulation 5.3B.03). Where (inter alia) a company is eligible for a Part 5.3B restructuring and has resolved to appoint a restructuring practitioner, there is provision extending the temporary safe harbour defence and the changes to the statutory demand procedure outlined in the previous section (Corporations Act ss 458D-458H, 588GAAC; Corporations Regulation 5.4.01AAA).

Secondly, new sections 500A to 500AE have been inserted into the *Corporations Act 2001* (Cth). These provide for a simplified liquidation process which applies to eligible companies (who must, inter alia, not have liabilities exceeding \$1m). The process includes a streamlined creditors voluntary winding up procedure where the event that triggers the voluntary winding up occurs on or after 1 January 2021. Under this procedure, meetings of creditors are not held; there is no committee of inspection; there are reduced obligations on liquidators to investigate the company's affairs and make reports to creditors; and there are some limitations on operation of voidable transaction provisions.

In addition, with effect from 1 January 2021, the *Bankruptcy Amendment (Bankruptcy Threshold) Regulation 2000* (Cth) has permanently changed the bankruptcy threshold to \$10,000 (doubling the pre-coronavirus threshold of \$5,000).

Continuous disclosure

Temporary changes to the civil penalty regime for breaches of continuous disclosure obligations have been made to enable listed companies to more confidently provide earnings guidance and other forward-looking statements during the COVID-19 pandemic.

Sections 674 and 675 of the *Corporations Act 2001* (Cth) require certain entities to disclose information that is not generally available where, relevantly, *a reasonable person would expect* the information, if it were generally available, to have a material effect on the price or value of the entity's securities. Pursuant to the *Corporations (Coronavirus Economic Response) Determination (No 4)* 2020, an instrument made by the Treasurer under s 1362A of the *Corporations Act 2001* (Cth), the "reasonable person" test is replaced with a requirement that the entity *knows, or is reckless or negligent with respect to whether* the information would, if it were generally available, have a material effect on the price or value of the entity's securities. This modification remains in force for a period of 6 months from 22 September 2020. It does not affect criminal liability for breach of ss 674 or 675. (An earlier instrument, the *Corporations (Coronavirus Economic Response) Determination (No 2)* 2020, made equivalent provision for the period of 6 months from 26 May 2020).

Virtual meetings for companies and incorporated associations

A series of decisions in the Federal Court have authorised "virtual" meetings to occur so as to avoid infringing legislative restrictions on gatherings or placing people's health at risk.

In *Eagle, in the matter of Techfront Australia Pty Ltd* [\[2020\] FCA 542](#), Farrell J made orders permitting company administrators to hold meetings of creditors during the administration by telephone or audio-visual conference in place of a physical meeting. Her Honour also authorised meetings of a committee of inspection of creditors to occur by the same means. The orders were made under s 447A of the Corporations Act and s 90-15 of the Insolvency Practice Schedule.

Similar orders were made by Middleton J in *Strawbridge, in the matter of Virgin Australia Holdings Ltd* [\[2020\] FCA 571](#).

In *Avita Medical Ltd, in the matter of Avita Medical Ltd* [2020] FCA 592, Jagot J ordered a meeting of shareholders for the purposes of voting on a scheme of arrangement to occur by audio and audiovisual means. The orders prescribed a procedure for giving access to the meeting, asking questions and conducting votes. Her Honour required the company to maintain a help line to assist shareholders and proxyholders who experience technical difficulties with voting or participating in the meeting. The orders were made under ss 411 and 1319 of the Corporations Act.

The position has now been addressed by legislation, pursuant to an instrument made by the Treasurer under s 1362A of the *Corporations Act 2001* (Cth). The *Corporations (Coronavirus Economic Response) Determination (No 3)* 2020, provides that for the 6 months from 21 September 2020, provisions of the Corporations Act and Regulations, the Insolvency Practice Rules and Passport Rules, are modified so as to enable virtual meetings. The Determination enables persons to participate in meetings without being physically present in the one place; and deals with the use of technology to enable the taking of votes, speaking at meetings, the appointment of proxies and the giving of notice of meetings. (An earlier instrument, the *Corporations (Coronavirus Economic Response) Determination (No 1)* 2020, made equivalent provision for the period of 6 months from 5 May 2020).

In NSW, the *COVID-19 Legislation Amendment (Emergency Measures - Miscellaneous) Act 2020 (No 5)* makes similar provision in respect of associations governed by the *Associations Incorporation Act 2009* (NSW). It enables meetings to be held using remote access technology and electronic ballots to be conducted, even if an association's constitution does not permit this. These provisions, initially in force from 14 May 2020 until 26 September 2020, have now been extended to 25 March 2021: *Associations Incorporation Amendment (COVID-19 Prescribed Period) Regulation 2020*.

Electronic documents and electronic signature

Both State and Commonwealth governments have enacted provisions to make it easier to sign and attest the signature of documents using remote access technology.

A new Part 2B of the *Electronic Transactions Act 2000* (NSW), which took effect on 28 September 2020, provides that the witnessing of a signature required under an Act or another

law to be witnessed may be witnessed by audiovisual link; and arrangements in relation to witnessing signatures and the attestation of documents may be performed by audiovisual link. Documents covered by the provision include wills, powers of attorney, deeds or agreements, enduring guardianship appointments, affidavits and statutory declarations. There are provisions specifying measures that must be taken by a person witnessing the signing of a document by audiovisual link. The new Part is in force on a pilot basis until 31 December 2021. (An earlier instrument, the *Electronic Transactions Amendment (COVID-19 Witnessing of Documents) Regulation 2020* (NSW), made similar provision for the period of 6 months from 22 April 2020.)

The *Corporations (Coronavirus Economic Response) Determination (No 3) 2020* modifies provisions of the *Corporations Act 2001* (Cth) regarding the execution of documents by a company. Section 127(1), which enables a company to execute a document without using a common seal by having it signed by certain company officers, is modified so as to permit those officers to sign a copy or counterpart of the document in physical form or to sign the document electronically. Additionally, the assumptions which s 129(5) of the Act permits outsiders to make in respect of documents executed without a seal under s 127(1) are extended to documents executed in accordance with the modified version of s 127(1). These provisions have effect for 6 months from 21 September 2020. (An earlier instrument, the *Corporations (Coronavirus Economic Response) Determination (No 1) 2020*, made equivalent provision for the period of 6 months from 5 May 2020).

The *Corporations Amendment (Corporate Insolvency Reforms) Act 2020* (Cth) has introduced new provisions into the *Corporations Act 2001* (Cth) dealing with electronic communication and signature of documents. New sections 105A and 105B make provision for the time and place that an electronic communication is sent or received. A new s 600G provides for electronic communication and signature of documents in the external administration of a company. These provisions commenced on 16 December 2020.

Payment of rent under commercial leases

A vexed issue is the management of rental obligations under commercial leases where tenants are no longer trading (or trading to the same extent) and landlords have no realistic possibility of obtaining an alternative tenant.

The issue arose in the context of the obligations of administrators of a corporate tenant in *Strawbridge, in the matter of CBCH Group Pty Ltd* [2020] FCA 555. The administrators of the Colette Group had closed some 93 retail stores while COVID-19 restrictions were in place, as the products sold by the Group would not be regarded as essential goods or services. Markovic J gave directions to the administrators, under s 90-15 of the Insolvency Practice Schedule, that for a specified period they would be justified in causing the companies not to pay rent pursuant to leases to which the stores were subject. Her Honour also made orders absolving the administrators from personal liability for the payment of rent over the same period, under s 447A of the Corporations Act. Markovic J accepted the administrators' submission that the orders would not prejudice the landlords because, among other reasons, the economic environment was such that no landlord would likely be able to find a replacement tenant in the near future; and there remained at least the potential for the landlords' position to be ultimately improved if a post COVID-19 recapitalisation or sale occurred.

The issue has now been addressed by legislation. On 7 April 2020, the National Cabinet released a Mandatory Code of Conduct for commercial tenancies. The Code of Conduct contains a number of "good faith leasing principles" to be applied in negotiating temporary arrangements between certain landlords and tenants during the COVID-19 period.

The Code of Conduct is given force under NSW law through the *Retail and Other Commercial Leases (COVID-19) Regulation 2020 (No 3)* (NSW), which commenced on 1 January 2021. It applies, broadly speaking, to lessees who qualify for the JobKeeper scheme and had a turnover of less than \$5m in the 2018-2019 financial year. It provides, among other things, that for a period ending on 28 March 2021, lessors may not take various prescribed actions against lessees on the grounds of a failure to pay rent; rent may not be increased; and parties to a commercial lease may require a good faith renegotiation of the rent having regard to the economic impacts of the COVID-19 pandemic and the leasing principles set out in the National Cabinet Mandatory Code of Conduct. (Two earlier instruments, the *Retail and Other Commercial Leases (COVID-19) Regulation 2020* and the *Retail and Other Commercial Leases (COVID-19) Regulation 2020 (No 2)*, made provision for the periods 24 April 2020 to 24 October 2020 and 24 October 2020 to 31 December 2020 respectively).

A similar issue arose in respect of lease of aircraft in *Strawbridge, in the matter of Virgin Holdings Ltd (No 3)* [\[2020\] FCA 726](#). There, Middleton J extended the time in s 443B of the Corporations Act for the administrators of the Virgin companies to decide whether to surrender any of the 142 aircraft leases held by the companies, pending the completion of a sale process; and absolved the administrators from personal liability for payment of rent under those leases for the same period. His Honour relied on various considerations, including the circumstance that, having regard to the significant travel restrictions in place during the COVID-19 pandemic, as a matter of commercial reality it was not apparent that the return or surrender of the leased aircraft would enable lessors and financiers to derive any better financial return for their property in the short term.

Adjournment of court proceedings

A number of court decisions address adjournment applications made in consequence of difficulties caused by COVID-19.

In *ASIC v GetSwift Ltd* [\[2020\] FCA 504](#), Lee J refused to adjourn a 10 week hearing due to commence on 9 June 2020. The proceedings, in which an ASIC regulatory action against a company and its officers was to be heard sequentially with a class action against some of the same defendants, involved a large number of witnesses (41 in the ASIC proceeding) and was to be conducted using Microsoft Teams. Lee J canvassed a number of considerations which were likely to make the conduct of a trial in these circumstances difficult and undesirable, but ultimately concluded that the trial could proceed without any real risk of practical injustice. His Honour had regard to arrangements that were to be made to mitigate some of the difficulties involved in conducting a trial, and also to the difficulties which would entail for the Court and other litigants if a trial of this magnitude had to be adjourned.

Similarly, in *Capic v Ford Motor Company* [\[2020\] FCA 486](#), Perram J refused an application to adjourn a six week trial due to commence on 15 June 2020. That trial too would be conducted using virtual platforms. His Honour addressed a number of difficulties which would be encountered if the trial proceeded but considered that solutions (not all of them entirely satisfactory) could be found to many of these. He ultimately concluded to adjourn the trial at this stage because of the pandemic may be to adjourn it for an indeterminate period,

and that the Court should attempt to make the trial work and only adjourn it later if this proved to be unworkable.

Conversely, in *Motorola Solutions Inc v Hytera Communications Corporation Ltd* [\[2020\] FCA 539](#), Perram J acceded to an application to adjourn a hearing due to commence on 4 May 2020 in circumstances where seven witnesses were located in the People's Republic of China and travel restrictions meant that they would be unable to attend the hearing to be cross-examined on the affidavits and the taking of evidence by video link to China would arguably not be permissible under Chinese law.

In *Quince v Quince* [\[2020\] NSWSC 326](#), Sackar J acceded to an application to adjourn a hearing in circumstances where the hearing would have to be conducted by video link. The plaintiff had alleged that certain transfers of shares purportedly executed by him were forged by the defendant. The trial would involve cross examination of the defendant on matters of credit in circumstances where there was little documentary or other circumstantial evidence. Sackar J accepted that in a case of that kind the atmosphere of the trial, and the judge's ability to assess the defendant's demeanour in answering the allegations, would be crucial to assessing the defendant's credit and that the plaintiff should be given the opportunity to ventilate that issue in the conventional way.

In *Haiye Developments Pty Ltd v The Commercial Business Centre Pty Ltd* [\[2020\] NSWSC 732](#), Robb J vacated an eight day hearing for reasons caused by the COVID-19 pandemic. His Honour was influenced by the considerations that three of the plaintiffs' witnesses in China would be unable to travel for the hearing; there was a chance it would be unlawful for them to give evidence from China; even if evidence could be given from China, the witnesses' credit would be crucial to the plaintiffs' success and the witnesses would be remote from their interpreters which would be a cause of delay and inefficiency. His Honour considered that, while courts have taken the approach that hearings must continue despite the pandemic, even where credit is in issue, this concatenation of circumstances put the present case into an exceptional category.

In *Roberts-Smith v Fairfax Media Publications Pty Ltd (No 4)* [\[2020\] FCA 614](#), Besanko J vacated a six-week trial due to commence on 15 June 2020. The case was a defamation action against media respondents who had published articles allegedly containing imputations

that the applicant had committed murders and acts of domestic violence. The trial would potentially involve national security information being put to witnesses. Besanko J held that, because national security information could not safely be communicated using Microsoft Teams, and given that the credibility and reliability of key witnesses may be crucial in circumstances where the alleged imputations were very serious, an in person trial should occur.

In *JKC Australia LNG Pty Ltd v CH2M Hill Companies Ltd* [2020] WASCA 38, the Western Australian Court of Appeal rejected an application by a respondent to vacate an appeal proposed to be conducted by telephone in light of the COVID-19 pandemic. The appeal concerned questions of contractual construction relating to a \$2.5m claim. The Court rejected submissions that procedural fairness required counsel to be able to see and “read” the court during the hearing of the appeal; and that the conduct of the appeal would be significantly prejudiced because senior counsel would be unable to have junior counsel and instructors present with him during the appeal.

In New South Wales, regard must be had to the *Evidence (Audio and Audio Visual Links) Act* 1998, s 22C of which provides that a court may direct that a witness or legal practitioner representing a party may appear by audio visual link. The court is empowered to give such a direction only if it is in the interests of justice and having regard to a number of considerations, which include the public health risk posed by the COVID-19 pandemic and the efficient use of available judicial and administrative resources. The section remains in force until 25 March 2021: *Evidence (Audi Visual and Audio Visual Links) Regulation* 2015.

Other resources

There is an excellent online textbook entitled *COVID-19 and the Law of Australia* written by Emrys Nekvapil, Maya Narayan and Stephanie Brenker, which can be found at <https://covid19-law.com.au/index.html>. It contains a detailed account of caselaw, legislation and other instruments responding to the COVID-19 pandemic, organised by subject area, covering all Australian jurisdictions.