

# **The Issues Concerning the Order of Payment of Workers' Claims and Security Interests in the New Bankruptcy Law**

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## **The Provisions in Current Laws of China**

Article 32 of the Enterprise Bankruptcy Law (For Trial Implementation) provides that, "With respect to claims secured with property that are established before bankruptcy is declared, the creditors enjoy the right to receive repayment with priority with respect to such security. With respect to claims that are secured with property whose amount exceeds the value of the security collateral, the part that is not repaid constitutes a bankruptcy claim, and will be repaid in accordance with the bankruptcy proceedings." Article 37 of the Enterprise Bankruptcy Law (For Trial Implementation) provides that, "After the prior deduction of bankruptcy expenses from the bankruptcy property, repayment shall be made in the following order: (1) wages of staff and workers and labor insurance expenses that are owed by the bankrupt enterprise; (2) taxes that are owed by the bankrupt enterprise; and (3) bankruptcy claims."

Article 203 of the Civil Procedure Law provides that, "With respect to the property mortgaged or otherwise used as security for bank loans or other obligations, the bank and other creditors shall have priority in the repayment of debts as regards the property mortgaged or used as security for other kinds of obligations." Article 204 of the Civil Procedure Law provides that, "After the prior deduction of bankruptcy expenses from the bankruptcy property, repayment shall be made in the following order: (1) wages of staff and workers and labor insurance expenses that are owed by the bankrupt enterprise; (2) taxes that are owed by the bankrupt enterprise; and (3) bankruptcy claims."

In accordance with these provisions, among all properties of a debtor, secured claims enjoy the status to be paid with first priority with respect to the security, and unsecured properties and remaining properties after payment of secured claims shall be allocated for bankruptcy after the payment of expenses of bankruptcy proceedings. As for bankruptcy distribution, workers' wages, labor insurance premiums and other workers' claims shall be paid with first priority.

## **Provisions of the International Convention**

Article 5 of Convention concerning the Protection of Workers' Claims in the Event of the Insolvency of their Employer passed at International Labor Conference in June of 1992 provides that, "In the event of an employer's insolvency, workers' claims arising out of their employment shall be protected by a privilege so that they are paid out of the assets of the insolvent employer before non-privileged creditors can be paid their share." Article 8 thereof provides that, "National laws or regulations shall give workers' claims a higher rank of privilege than most other privileged claims, and in particular those of the State and the social security system." That is to say, the Convention requires that the workers' claims should be paid prior to "non-privileged creditors", "privileged claims of the State and the social security system" and most of other privileged claims. The provisions of the current bankruptcy legislation of China give priority to workers' claims over ordinary claims and tax claims, which satisfies the level of protection required in the Convention.

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### **Provisions concerning Policy-Based Bankruptcy**

As for the “policy-based bankruptcy” implemented since 1994, the worker arrangement issue for bankrupt enterprises has a prominent status. As for the status of secured claims, the “Notice of Several Issues Concerning the Trial Implementation of Bankruptcy of State-Owned Enterprises in Several Cities”(Document No. 59) issued by the State Council in 1994 also recognized the priority of secured creditors. However, Article 5 of the Notice of Several Issues Concerning the Trial Implementation of Merger and Bankruptcy of State-owned Enterprises (Document No. 492) issued by SETC and the People’s Bank of China in 1996 made a new provision that: “during the implementation of enterprise bankruptcy, firstly, workers of bankrupt enterprises shall be properly arranged, for the purpose of maintaining social stability. Where an enterprise offers the land use right as a collateral, the revenues from the transfer of the land use right shall be first used for arrangement of workers of bankrupt enterprises, and the mortgagees shall enjoy the right to be paid with priority out of the remaining revenues; if the revenues from the disposal of the land use right are insufficient for the arrangement of workers, the insufficient amount shall be paid successively out of the revenues from disposal of unsecured property or other secured property. The portion which fails to be preferentially paid to the mortgagees shall be paid as general claims. ” This provision was reaffirmed in the Supplementary Notice of Several Issues Concerning the Implementation of Merger and Bankruptcy of State-owned Enterprises and Workers’ Reemployment in Several Cities (Document No. 10) given by the State Council in 1997. However, it is generally understood that this provision is only an expedient measure adopted in some special period in connection with special issues.

By the end of April of 2004, the number of enterprise closing and bankruptcy projects arranged in China was 3377, the total amount of bad accounts in State-owned banks and claim losses of financial asset management corporations, which were cancelled after verification, was 223.8 billion RMB, and the amount of eliminated source of losses was 134.1 billion RMB, and the Central Finance accumulatively appropriated 49.3 billion RMB as bankruptcy subsidies.<sup>1</sup> It may be seen that to some extent, the claim losses of banks were born by the Central Finance, directly or indirectly, and the losses born by the Central Finance was made up by financial resource saved due to the elimination of source of losses. Generally speaking, the measure above is a strategic arrangement for distribution of reform costs within State-owned economy, instead of a systematic arrangement for establishing market economic order.

#### **Provisions in the New Bankruptcy Law (Draft)**

##### **A. Provisions on secured claims**

In the course of drafting the new Bankruptcy Law since 1995, NPC-FEC continues the current legislative plan regarding the payment of workers’ claims and secured claims. The draft submitted by FEC to the standing committee in June of 2004 provided the right of exclusion status of secured claims. Article 121 of the Draft provides that, “the right of mortgage, the right of pledge, and the lien enjoyed on the property or rights of a bankrupt belongs to the rights of exclusion, and the holders of such rights of exclusion are referred to as exclusion right holders.” “An exclusion right holder shall enjoy the right to be paid with priority with respect to the subject matter of the right of exclusion.”

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<sup>1</sup> Data Source: Basic Situations on Policy-Based Bankruptcy of State-owned Enterprises (June 10, 2004) issued by SASAC under the State Council, carried by the Document (Ren-Cai-Wen (2004) No. 6) of NPC-FEC.

The right of exclusion refers to the “right to receive payment from special property of a bankrupt corporation with preference over creditors in the bankruptcy.”<sup>2</sup> “The right of exclusion refers to the “right to receive payment separately from special property of a bankrupt corporation with priority. Such a right comes from the security interests existing on special property of a bankrupt prior to the bankruptcy declaration, and is not created due to bankruptcy proceedings.”<sup>3</sup> “A creditor who enjoys the right of exclusion shall not exercise its right according to liquidation proceedings. Not exercising “its right according to liquidation proceedings” means A creditor who enjoys the right of exclusion shall exercise its right out of bankruptcy proceedings according to the type of its right of exclusion and based on the force of its right of exclusion”<sup>4</sup> For example, Japanese Bankruptcy Law provides that, “those who have a special preemption, a right of pledge or a right of mortgage on the property belong to a bankrupt corporation shall enjoy the right of exclusion with respect to the subject property.” (Article 92) The “right of exclusion shall not be exercised according to the bankruptcy proceedings.” (Article 95) In the US Bankruptcy Act, claims in bankruptcy are divided into secured claims and unsecured claims. “A secured claim is a claim secured by special property, and an unsecured claim does not involve any special property and is paid from any other property of the debtor other than the collateral.”<sup>5</sup> In accordance with the US Bankruptcy Act, workers’ claims belong to unsecured claims, but have relatively priority status among a series of unsecured claims.<sup>6</sup>

Under market economy conditions, the largest creditors of enterprises are banks and other financial institutions. Just owing to the credit supports by banks, enterprises are allowed to unceasingly develop production, improve technology, introduce talents and smooth logistics, for the purpose of unceasingly exploit its markets and develop itself as well as promoting the economic prosperity of the whole society. In order to reduce its lending risks, usually a bank only grants loans to the applicants with good credit standing, and an important means for an enterprise to be trusted by the bank is to reinforce the enterprise’s credit standing by offering a security to the bank. In this way, on one hand, banks become major loan creditors of many enterprises; on the other hand, a majority of bank loans form secured claims.<sup>7</sup>

It is definitely censured to give the right of exclusion status to secured claims. One main reason for the censure is that the existence of a great deal of rights of exclusion cause the reduction of unsecured property and the decrease of the ratio of payment of unsecured claims

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<sup>2</sup> New Law Dictionary edited by [Japan] Wagatsuma, Sakae, Chinese translation, China University of Political Science and Law Press, 1991, p. 855.

<sup>3</sup> Chen Jinan, Bankruptcy Law, Taiwan Sanmin Book, 2002, p. 196.

<sup>4</sup> Id, p. 200.

<sup>5</sup> Pan Qi, US Bankruptcy Act, Law Press, 1999, p. 128.

<sup>6</sup> US Bankruptcy Act provides that, eight types of unsecured creditors belong to unsecured priority creditors, and all others who have not priority are referred to general unsecured creditors. Among the nine types of creditors, only after creditors at the next higher level are fully paid, the creditors at the next lower level may be paid. The priority of workers’ claims is inferior to that of the first priority unsecured claims of administrative expenses during the trial of bankruptcy case, and is also inferior to that of the second priority unsecured claims formed by debtors during normal business operation from the time when involuntary liquidation petition is filed to the time when the debtors are declared bankrupt. The “wages and other labor remunerations owed by debtors to their employees” in the workers’ claims belong to the third priority unsecured claims, and the welfare funds, pension funds, medical insurance premiums, life insurance premiums, and other welfare items payable by employers belong to the fourth priority unsecured claims.

<sup>7</sup> It was reported by relevant agencies that, in 1982, 80% of the loans granted by the US banks to large and small enterprises were secured claims, but by 2001, the secured loans granted by the US commercial banks to enterprises against real estates had reached 1,652.3 billion dollars. See, Lucian Arye Bebchuk and Jesse M. Fried, A New Approach to Valuing Secured Claims in Bankruptcy, 114 Harvard Law Review, (2001).

(including workers' claims) , and at the same time, result in the frustration of the collective payment principle of the Bankruptcy Law.

Based on the observations by foreign scholars, there are four types of attitudes toward security in law systems of various countries:(1)much sympathetic(such as the countries under the UK laws, Sweden); (2) sympathetic (such as Germany, Holland, Japan, Switzerland, and the US); (3) illdesposed (such as Belgium, Spain, and a majority of countries in Latin America); (4) much illdesposed (such as Austria, France, and Italy) .<sup>8</sup>

#### B. Provisions on workers' claims

The Convention concerning the Protection of Workers' Claims in the Event of the Insolvency of their Employer provides for Workers' Claims. In 2004, the FEC's Draft adopted the concept of "workers' claims".<sup>9</sup> Workers' claims refer to the claims for payment enjoyed by workers against their employers based on the labor affiliations, which is embodied by Item 1 of the first paragraph of Article 137 of the Draft, that is, "the wages owed to workers by and social insurance premiums in arrears payable by a bankrupt, and the compensation and other expenses payable by the bankrupt to workers in accordance with laws and administrative regulations." The first paragraph of that Article provides that, insolvent properties after preferential payment of expenses of bankruptcy proceedings and **common debts** and shall be first used to pay the workers' claims, then to pay the taxes in arrears, and at last to pay general claims. This provision is consistent with the current legislation.

The UNCITRAL's Draft Legislative Guide on Insolvency Law (2004) pointed out that, "In a majority of countries, workers' claims (including claims for wages, leave or holiday pay, allowances for other paid absence, and severance pay) constitute a class of priority claims, which in a number of cases ranks above tax and social security claims. This approach is generally consistent with the special protection that is afforded to employees in other areas of insolvency law (see chapter III.D.6), as well as with the approach of some international conventions. 111 In some insolvency laws, the importance of maintaining continuity of employment in priority to other objectives of the insolvency process, such as maximization of value of the estate for the benefit of all creditors, is evidenced by a focus on sale of the business as a going concern (with the transfer of existing employment obligations), as opposed to liquidation or reorganization where these obligations may be altered or terminated."<sup>10</sup>

Following are the situations of several developed countries.

##### 1. US

The US Bankruptcy Act provides that, workers' claims belong to unsecured claims and the section below 2000 dollars shall be protected with the third / fourth priority. Only the wages no more than 2000 dollars occurring within 90 days before the bankruptcy petition is filed shall be regarded as wages with third priority. The welfare with fourth priority must be the welfare enjoyed by employees with respect to the work within 180 days before the bankruptcy petition is filed; secondly, the total amount of the two priorities above may not exceed 2000 dollars. For example, if some employee has been paid 2000 dollars with third priority, he may not be paid with fourth p[priority. If workers' claims exceed 2000 dollars, the excess can only be paid as general

<sup>8</sup> See Wood, P.R., *Principles of International Insolvency*, 1995, p. 189.

<sup>9</sup> See Articles 46, 81, and 86 of the Draft.

<sup>10</sup> UNCITRAL Working Group V (Insolvency Law), Draft Legislative Guide on Insolvency Law, March 29-April 2, 2004, New York, para. 633.

unsecured claims.

The US provides that the priority of the payment of workers' claims is inferior to that of the payment of secured claims, mainly for the following reasons: firstly, to keep the continuous economic vigor is more important than to give relief to individual worker creditors. The secured creditors (mainly, the banks) have a safe anticipation that claims will be effected within the framework of the Security Law, so that industrial and commercial enterprises as borrowers may continuously obtain from banks funds necessary for business operation. In good economic environment, even if an enterprise goes into bankruptcy, the reemployment of its workers may be effected quickly, so as to reduce the civil strife caused due to the bankrupt enterprise's failure to pay in full workers' claims to its employees. Secondly, the US Bankruptcy Act, to a greater extent, reflects the interests of financial creditors, so the secured claims are fully protected. Thirdly, in the US, wages are usually paid once every two weeks, and it is rarely seen that wages are three months in arrears, and employees probably have resigned until their wages become three months in arrears. As a result, There seems to be little probability of an employer's defaulting a great deal of wages to its employees.

## 2. France

In order to keep a worker from losing his claims only due to his failure to timely declare his claims, the Law of France on the Judicial Rehabilitation and Liquidation of Enterprises (1985) provides that, the payment of the workers' claims (including all remunerations within the recent 60 days and leave pays payable to employees and apprentices) established according to the Labor Code are given the first priority over secured claims. Such remunerations and compensation payable to employees and apprentices should be paid within 10 days after the proceedings are declared.

The implementation of this system in France is not only based on the political consideration of Social Democratic Party in power, but also because of the special systematic conditions in France. Firstly, a wage pre-protection system was established by a law passed on Dec. 27, 1973 in France, that is, enterprises and employers should pay the Association for Employment in Trade and Industry 0.25% of the total wages as a guarantee for wages payable to employees in the event of enterprise bankruptcy.<sup>11</sup> In this way, in bankruptcy cases, the impacts of workers' claims on secured claims can be abated to some extent.

Secondly, in 1974, French government, in accordance with a decree passed by the Congress, established a "Inter-Ministry Committee for Reorganizations of Industrial Structure". The Fifteen member of the committee are acted as by the heads of Ministries under the French government and are led by the Minister of Finance of France. The committee has a secretariat and is governed by the Ministry of Finance. The main function of the committee is to help large-size private enterprises (with more than 400 employees) out of insolvency through coordination and proper financing. As for those small-size private enterprises (with less than 400 employees), the government representatives of Regions and Provinces shall carry out coordination and assistance; as for State-owned enterprises, the competent governmental ministries shall be responsible for tackling the problems. As a result, when an enterprise falls into trouble, even if banks are unwilling to lend, the enterprise may be salvaged by resorting to the funds from the government.

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<sup>11</sup> See Foreign Labor Laws and Social Security Laws edited in chief by Wang Yiyiug, China Renmin University Press, 2001, pp. 233—234.

### 3. Japan

As for secured claims, as mentioned above, the Japanese Bankruptcy Law has provided the right of exclusion as a guarantee. As for workers' claims, the law provides that only the unpaid wage claims for the six months immediately before the bankruptcy declaration are recognized as general preemptions and priority claims in bankruptcy. However, all of the wage claims unpaid by a company (joint-stock limited company, limited company or mutual insurance company) prior to the bankruptcy declaration become general preemptions. Some scholars have criticized such differential treatment.<sup>13</sup> The claims after bankruptcy declaration may be paid with priority as corporate claims **common claims**. In addition, it is generally understood that pension claims should apply the provisions concerning wage claims.

Although the Japanese Bankruptcy Law grants different priority to workers' claims, it still strictly abide by the civil theory that "property rights have priority over claims", and it does not emerge that workers' claims encroach on secured claims, which exist in French laws.

### 4. Korea

Workers' claims refer to the claims for all pecuniary goods as defined under Article 18 Wages of the Labor Standards Law, including claims for basic wages, claims for various incomes, claims for **severance pay**, claims for savings, etc.. As for the order of payments, the priority of workers' claims is inferior to the priority of claims secured by a pledge or mortgage, but the wages for the recent three months and the pensions and disaster compensation for the recent three years shall be paid with first priority over claims secured by a pledge or mortgage. When an enterprise goes into bankruptcy, the order of payments against all the property of the enterprise is as the follows: 1) the wages payable to workers for the recent three months and the pensions and disaster compensation payable to workers for the recent three years; 2) land taxes and other levies and fees surcharged by public organs, which having priority over right of pledge and right of mortgage; 3) claims secured by a pledge or mortgage; 4) other claims based on labor affiliations other than the wages for the recent three months; 5) general claims.

In addition, Korean government has realized that if an employer is insolvent, the priority of workers' claims is nothing but a theoretic right. On Feb. 20, 1998, Wage Claims Protection Law was formulated, and Korea decided to establish a wage claims protection fund for the purpose of guaranteeing the payment of wage claims to workers in the event of the insolvency of their employer. The wage claims protection fund is contributed by employers, and the contribution made by an employer shall be no more than 2% of the wages of workers for the current year. The amount of contribution shall be determined by the Review Committee for Wage Claims Protection Fund after review, and the ratio as specified by the Minister of Labor multiplied by the amount is the total amount.<sup>14</sup>

As for the relation between workers' claims and secured claims, the provisions of laws of Korea are similar to those of France. However, Korea offers fuller protection of workers' claims

<sup>12</sup> See Wang Weiguo, Legislation and Practice on Regulation of Enterprise Plights in France, CASS Journal of Foreign Law, 4 (1996).

<sup>13</sup> Japanese Bankruptcy Law authored by **石川明** (Japan) and translated by He Qinhu and Zhou Guiqiu, China Legal Publishing House, 2000, p. 105.

<sup>14</sup> See Foreign Labor Laws and Social Security Laws edited in chief by Wang Yiyiug, China Renmin University Press, 2001, pp. 545—546.

than France does. Perhaps, the practices by Korea seem to be a little socialistic.

#### 5. Taiwan Province of China

Taiwan laws have adopted a civil law tradition. As for the issue on workers' claims and secured claims, the civil theory that property rights have priority over claims is followed. "the Claims provided for in Article 38 of the Trade Union Law (in the event of bankruptcy of its debtor, a trade union has the right to be paid with priority against the debtor's property), Article 15 of the Law on Ore Yards (a mining right holder shall pay miners all wages in arrears with priority in the event of business discontinuance or bankruptcy), and the third item of Article 11 of this Law (the remunerations payable to administrators, as determined by courts, have the right to be paid with priority) shall get paid prior to general claims in bankruptcy .....the priority of such priority claims is with respect to bankrupt corporations instead of special property, so such priority claims do not belong to rights of exclusion."<sup>15</sup>

In Taiwan, although the priority of workers' claims is inferior to that of secured claims, some special laws including the Trade Union Law and the Law on Ore Yards still give the payment of workers' claims against general property of debtors a priority over other claims.

#### **The Revised Draft by the Law Committee**

After the Draft was submitted to the NPC standing committee for review, the Law Committee made major changes of the provisions of the Draft concerning the status of the payment of secured claims and the priority of the payment of workers' claims. The basic intent of such changes is to give the first priority to outstanding workers' claims. The second paragraph of Article 127 of the Revised Draft by the Law Committee provides that, the workers' wages and basic social insurance premiums payable by a bankrupt and the compensation payable to workers by the bankrupt according to laws and administrative regulations, which are not paid according to the previous paragraph, shall be paid with priority against the special property provided for in Article 113 hereof." In practice, a major change occurs to this provision, that is, the capitalization of the collateral must be implemented by the administrator and the secured creditors can be paid only after the workers' claims are paid in full; during general bankruptcy liquidation proceedings, creditors with security right on property shall have the right of exclusion, that is, after the bankruptcy declaration, the collateral shall be directly and timely disposed of in a usual way to realize the security right. In accordance with the Security Law, the pledge of and lien over movables shall be subject to the handover of possession of the property. As a result, in the event of bankruptcy, the pledge or lien has actually been in the possession of the creditor. The following problems arise from this: will all of the property be handed over to the administrator? How to hand it over? If the possessor refuses to hand it over, how to deal with it? In case of inability to hand it over, the administrator can only use the incomes from the realization of the collateral to arrange workers, which causes the burdens on mortgagees and pledges/lienors to be unfair.

The more important is that the priority of workers' claims over secured claims as provided for in the Bankruptcy Law will have great effects on the game between banks and enterprises. Let us try to deduce it.

1. The proper direct aftermaths of this institutional arrangement are the decrease of public trust on security rights and the reduction of expected payment ratio of secured claims. In the event of civil execution, a debtor may file a bankruptcy petition to keep its creditors from exercising the

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<sup>15</sup> Chen Jinan, Bankruptcy Law, Taiwan Sanmin Book, p. 170.

security, because in the event of bankrupt, collateral may be reserved through the priority of workers' claims.

2. Where the expected payment ratio decreases, a bank may adopt the following countermeasure: (1) to refuse to grant loans to enterprises that default workers' wages and social insurance premiums and fail to participate in social insurance program. It means that such enterprises may become bankrupt or be closed due to the discontinuity in supply of funds so that their workers are unemployed. (2) in consideration of the reduction of payment ratio of bank claims due to workers' claims in future bankruptcy proceedings, banks will increase the rebate rate for the collateral when accepting enterprises' collateral for loans, that is to say, the financing ability of fixed assets of enterprises will decrease, which will cause the decrease of the total volume of financial transactions and aggravate the financial difficulty of enterprises.

3. Under this system, banks will incorporate the payment of workers' wages and social insurance premiums by enterprises into the enterprise credit evaluation system. A solvent enterprise will make its best efforts to reduce workers' claims in arrears for the purpose of gaining loans.

4. A bank may insert in a loan contract an article, which provides that, after the bank grant loans to the enterprise, if the enterprise is found to have workers' claims in arrears, the bank shall have the right to take back loans in advance. At that time, if the enterprise is unable to repay loans in advance, the bank will tend to timely starting bankruptcy procedures. In this case, the probable results are as follows: (1) through restructuring or conciliation, the enterprise and its workers make a compromise to provide a favorable guarantee for bank claims; (2) the enterprise goes into liquidation and is closed, and its workers become unemployed.

5. the improvement of the priority of workers' claims will probably become another way for enterprises to evade paying debts through bankruptcy. Especially the State-owned enterprises that have not been transformed may adopt the method "increasing workers' claims—filing a bankruptcy petition—workers obtain main assets of the enterprise based on priority—workers use such assets for funding—the enterprise is revived after the change of ownership—the enterprise's debts to banks will die out" to evade paying debts through bankruptcy. The results of such a method are as follows: I. worsening bank assets; II. deteriorating the bank-enterprise relation; III, worsening market credit. The concurrent occurrence of the three results means worsening China's operating environment for economic and existing environment for enterprises.

Are workers' interests only the interests from payment of claims? No. The following two points are considerable:

I. Employment interests are the long-term interests and fundamental interests of workers. If the institutional arrangement under the Bankruptcy Law causes the deterioration of the existing environment for enterprises, the deterioration will necessarily result in a very great deal of unemployment at last. This does not comply with the workers' interests.

II. A nation's economic development is the fundamental interests and long-term interests of the whole society including workers. If the institutional arrangement under the Bankruptcy Law causes the deterioration of the operating environment for economy of China, the deterioration will finally result in a decrease in social welfare, including a decrease in workers' welfare. This does not comply with the workers' interests.

## **Recommendations**

As to how to tackle the problems above, I make the following recommendations:

I. As for the institutional design of the priority of payment of secured claims and the priority of payment of workers' claims, the plan in the FEC Draft shall be adopted, that is, the priority of secured claims is recognized, and in the liquidation and distribution of unsecured property, the first priority is given to workers' claims. If there are sufficient reasons for the reinforcement of the protection of workers' claims, special limited priority may be given workers' claims. That is to say, it may be clearly provided that the workers' wages owed by a bankrupt for a half year or one year (as for the specific period, to be determined) shall be paid with the same priority as that of expenses of bankruptcy proceedings. Limited priority means to satisfy workers' basic needs during the bankruptcy procedures, which shows the humanism to guarantee that the living allowances for workers are paid. As for the other workers' claims, the current legislation and the plan in the FEC Draft are still abided by, that is, the workers' claims shall be paid with the first priority out of the incomes from realization of unsecured property. This arrangement has the following advantages: the risks of losing secured claims are limited and easily grasped; it does good to maintaining the credit of commercial banks of China in the world.

II. to provide for the joint and several liabilities born by enterprise operators and investors for workers' claims, which helps urge enterprises to reduce the amount of workers' claims in arrears and keep enterprises from evading paying debts through bankruptcy.

III. to establish a compulsory liability insurance system for payment of workers' claims, and the premiums shall be collected at an agreed ratio of enterprise profits and dividends paid to shareholders and handed over to a social insurance institution for trust administration.

IV. to establish a fund for worker security in the event of bankruptcy of an enterprise, and the fund will provide relief for basic needs of workers of the bankrupt enterprise.