

Liquidation Estate and Distribution of Assets

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Abstract

This research reviews the arrangement of liquidation process in India that particularly the estate of liquidation and asset distribution from Waterfall Mechanism which is mentioned in the Insolvency and Bankruptcy Code, 2016 (IBC)¹ It provides an overview of IBC² and National Company Law Tribunal's legal framework governing the liquidation which explains their role in the process. The process discusses the entire liquidation estate's composition, looking at the successive responsibilities of the liquidator, critical for managing the whole estate. It is important here to note that the Waterfall Mechanism sets forth the sequence of claims, which determines the order in which the assets goes to creditors and stakeholders. To understand how various creditor and credit holder types, as well as the specifics of the payment and recovery process, are handled with regard to the payments and payments process throughout the distribution process, it is necessary to examine the tiers of the eco- system Waterfall MechanismThe mechanism is underpinned by practical issues such as the asset valuation, issues relating to the law, and the calculation of the distribution of assets, which will be discussed using practical cases. Additionally, the paper criticizes the existing framework, including commonly perceived outcomes of unfairness and practice in the case of liquidation, and gradually suggest potential legislative and operational methods to solve the problems leading to fairness and efficiency .This study not only explains the complexity involved in the asset distribution process but in addition, it provides forward-looking perspectives on the wider policy implications for the financial stability and creditor rights in India.

Keywords: Liquidation Process, Insolvency and Bankruptcy Code, Asset Distribution, Creditor Rights, Waterfall Mechanism, National Company Law Tribunal

¹Insolvency and Bankruptcy Code, No. 31 of 2016, INDIA CODE (2016).

²Insolvency and Bankruptcy Code, No. 31 of 2016, Acts of Parliament, 2016 (India).

Introduction

While the resolution of a company during the corporate liquidation process, as stipulated under IBC³ is provided with crucial choices when secured creditors can choose between two primary strategic options i.e. seeking a separate enforcement of security interests outside of the liquidation framework, subject to specific restrictions, or taking part in the liquidation process to recover their dues in line with the priority set by the IBC's waterfall system. These are important decisions since they dictate how quickly and to what extent their debts will be recovered. by which secured creditors can gain their unpaid dues, those choices significantly impact their ability to retrieve the dues. The Insolvency and Bankruptcy Code (IBC) is a body of legislation crafted to address issues surrounding the amalgamation and modification

of legal frameworks pertaining to various aspects of corporate reorganization and bankruptcy resolution for partnerships, individuals, and corporations. It places particular emphasis on procedures that safeguard the interests of secured creditors during the liquidation process.

A secured creditor will be able to choose from one of these two basic strategic options once the liquidation of the company has been initiated in the IBC⁴. The first variant empowers the creditor to abandon his security interest to the current debtor's liquidation estate. Those creditors who chose this method of enforcement will now become part of the pool of creditors that is given the right to take part in the sale of the debtor's assets including those managed by the appointed liquidator. The alternative class consists of secured creditors who may choose to realize their security interests individually rather than taking part in the collective liquidation procedure, which divides the revenues from the sale of assets based on a predefined priority. This implies that, independent of the liquidation procedure, these creditors are entitled to pursue their claims against the particular assets given as security. By using this alternate strategy, secured creditors might possibly have priority over other creditors and avoid the more extensive liquidation procedure by pursuing the recovery of their debts straight from the assets backing their obligation makes it possible for the secure

³Insolvency and Bankruptcy Code, No. 31 of 2016, Acts of Parliament, 2016 (India).

⁴Insolvency and Bankruptcy Code, No. 31 of 2016, Acts of Parliament, 2016 (India).

party to realize their position separately. This implies that they can enforce their debt on their own through the provincial liquidation process that takes precedence to satisfy the claim.⁵ Whether there is demand from the public or not the completion would either create or eliminate jobs. For instance, the building and continuous operation of a new infrastructure project, such a roadway or industrial complex, may create job possibilities. On the other hand, if a business decides to restructure or downsize, the process itself may result in job losses as a means of cutting expenses or streamlining operations.

The outcome may change if a secured creditor decides not to take part in the collective liquidation procedure and instead pursues their security interest on its own. To be more precise, any excess sum recovered over the amount owing must be given to the liquidator in the event that the realization of the secured assets above the amount owed. Accordingly, the creditor does not keep any excess money beyond what is paid back through the autonomous enforcement of the security interest; instead, it is added to the liquidation pool. In line with the goals outlined in the liquidation procedure, this guarantees that each and every creditor is treated fairly. Besides the contribution of their share relating to the cost of winding up the company, they also get their individual amounts back according to their entitlements. This requirement provides that when a company makes recovery expenditure, which is above the requirements of liquidation, after all the creditors are paid, the excess surplus will be put in the collective pool of assets being liquidated to facilitate equal treatment of all creditors. This can be understood with the help of an illustration. In the process of winding up a business, secured creditors must pay a portion of the costs, including legal and administrative fees, that come with liquidation. A secured creditor who is entitled to a share of the company's assets, for example, will contribute proportionately to the ₹10 crore total expenses of liquidation. The Insolvency and Bankruptcy Code's priorities determine how the residual assets are allocated once the costs of liquidation have been paid. Secured creditors would be paid according to priority and entitlement if, for instance, the company's assets are valued at ₹50 crore

and after deducting the ₹10 crore for liquidation fees, ₹40 crore remains. Assume a secured creditor has 20% of the assets, or ₹8 crore, would be recovered by them out of the

⁵ *Deviation in Asset Distribution: Conundrum of Waterfall Mechanism under IBC - CBCL*, CBCL, <https://cbcl.nliu.ac.in/insolvency-law/deviation-in-asset-distribution-conundrum-of-waterfall-mechanism-under-ibc/> (last visited Apr. 23, 2024).

total. After the demands of all creditors have been met, any remaining funds are deposited into a common fund. By dispersing any residual cash among creditors in accordance with their claims and the priority set by the IBC, this surplus guarantees equitable treatment of creditors.

However, complications may occur if the released proceeds it means when money received from the sale of the company's assets. In accordance with the priority set out in Section 53 of the IBC, these revenues are utilized to pay back creditors. Any excess that remains after all secured and unsecured creditors have been paid is added to the group's asset pool which is not enough to cover the debt or in cases when the debt has no or very little value due to the deterioration of the collateral. Thus, the execution of the precautionary measure such as assessment of collateral values and by engaging with liquidator for accurate accounting and proper distribution of the assets are guaranteed when all relevant information is provided and collaboration with the liquidator is maintained. are primarily importance, which means that the creditor should go back and see the rest of an unpaid debt. With respect to this, the Section 53 of the IBC⁶ will be responsible for the distribution of the assets after the last bidder has gained the ownership of the company, and it will be through the conditions set by the section that the payments will be made among the creditors.⁷

Notwithstanding this is, also, if the secured party opted for the use of the secured assets as security in wrongful time, they must also exhaust the distribution payment mechanism stipulated under Section 53. This stage actually sets up a pyramid-shape “waterfall” distribution channel, through which the proceeds from the sold-off assets flow downscale in a successive order of importance. Such a trickle-down process is where the insolvency proceeding expenses occur, next the secured creditors’ payments are taken into consideration, then wages, employee benefits, and the others are covered.

This waterfall mechanism which has been drafted under the Companies Act, 2013 and implemented within the IBC, acts as a framework for distributing the individual assets during liquidation. It purposes to maintain such an orderly and fair division of assets amongst all the creditors whereby the distribution of the assets is contingent upon the notion that everyone

⁶ Insolvency and Bankruptcy Code 2016, section 53 (India).

⁷ *All About Waterfall Mechanism Under India’s Bankruptcy Law*, THE CORNER OFFICE JOURNAL, <https://www.cornerofficejournal.com/news/bankruptcy/all-about-waterfall-mechanism-under-indias-bankruptcy-law> (last visited Apr. 23, 2024).

shall be treated equitably in the insolvency proceedings. Through distinguishing and prioritizing of claims, the method is aimed at ensuring a fair interest representation of all stakeholders and at simplifying especially complicated liquidation situations that are usually left after the company has run into difficulties.⁸

Statement of Problem

The system of liquidation in India, which is largely directed by the IBC, however is complex because of a Waterfall Mechanism procedure for asset distribution. This is, in most cases, structured, but it might pose issues of fairness and efficiency, and as a result, a scenario of uneven distribution of benefits among creditors and other stakeholders may occur. In this respect we need to not only determine the efficiency and fairness of this allocation process, address the practical issues that might occur and find out whether the current legal framework is capable of adopting an approach that would efficiently and equitably resolve insolvent states.

Research Questions

- What is the role of the Waterfall Mechanism under IBC in allocating the liquidation estate's assets among various classes of the creditors and the stakeholder?
- What are the main challenges and inefficiencies experienced in implementing the Waterfall Mechanism when the country is being dealt with through liquidation process?

Research Objectives

- To examine the legal structure design and the regulatory process of the Waterfall Mechanism, described under IBC, in the context of the situations of liquidation estates in India.
- To analyze the effectiveness of assets distribution and equity order as a determined by the Waterfall Mechanism by determining possible for adjustment.

⁸*DISTRIBUTION OF ASSETS UNDER IBC: THE WATERFALL MECHANISM* | Lexpeeps, LEXPEEPS (Mar. 20, 2022), <https://lexpeeps.in/distribution-of-assets-under-ibc-the-waterfall-mechanism/>.

Research Methodology

This research adopts doctrinal research approach which is centered round the detailed analysis of statutory provisions, case law, legal literature and other relevant statutes. The research process is an in-depth study of legal sources, either primary or secondary, aimed at evaluation and criticism of the role of the Waterfall Mechanism in the liquidation process of indebted Indian companies. This methodological approach makes legal understanding and evaluation of existing legal frameworks, which put the management in place and highlight the implication of the distribution of assets during liquidation.

Review of Literature

*Manas Shrivastava & Adaysa Hota*⁹ has examines various choices of secured creditors in the course of bankruptcy proceedings under IBC. Secured creditors may choose to either forsake their collateral and get compensation from the liquidator or budge to realize their security interest themselves. Any liquidation excess money obtained from the second way should be transmitted back to the liquidator after paying the indebted and invoice expenses. While the secured creditor is entitled to money, the liquidator will conduct the remaining unpaid debts per section 53¹⁰ in case the aggregate proceeds are not enough. Moreover, the text further talks about the significant waterfall mechanism that is indispensable to IBC as it was first mentioned under Companies Act, 2013.¹¹

Corner Office Journal delineates the results and the behavior IBC and how it helps creditors recover their unpaid debt via CIRP, short for CIRP, and avails the reader how the fall mechanism in section 53 of IBC states the department of the proceeds derived from the sale of a bankrupt company's assets where stakeholders receive their respective shares making a paradigm shift in previous practices when government dues were the priorities, compared to now when government dues are no longer the priorities.

⁹Manas Shrivastava & Adaysa Hota, Results and Behaviour of IBC in Creditor Debt Recovery via CIRP, *Corner Office Journal*, <https://www.cornerofficejournal.com/ibc-creditor-debt-recovery> (last visited July 19, 2024)

¹⁰Insolvency and Bankruptcy Code 2016, section 53 (India).

¹¹Companies Act, 2013, Act No. 18 of 2013 (India)

Hypothesis

As per the research hypothesis, the existing Waterfall Mechanism under the Insolvency and Bankruptcy Code, 2016, does a satisfactory job of prioritizing secured creditors, the downside is that it may not adequately look in to the interests of lesser secured creditors and employees of insolvent companies, and as a result, the outcomes may potentially be inequitable, inefficient in the liquidation.

Historical Perspective

In 2016, India came up with IBC, as it was smart observation about legal framework gap, as related to market exit in right way and orderly manner. The previous legal framework did not introduce the process of a winding up of a business for the creditors was too long, uncertain and the equity shareholders in a whole had rather lower priority for repayment until the liquidation.

The IBC's sec. 53 has provided a robust systematic approach to this matter through outlining a consistent and structured "waterfall mechanism" to dispose of the assets. These criteria rank the listed stakeholders according to the order in which their retrieval from the dissolving business is to be paid off, to secure a methodical and fair process of splitting assets.

Knowing the distribution process needs a clear view of the legal aspects that existed previously to the IBC's arrival, and after the IBC. In compliance with the wrong precedents, the Apex court of India needed to interpret the laws like Sections 529 and 529A of Companies Act, 1956¹² and Section 48 of Transfer of Property Act, 1882¹³, in respect of the

ranking of creditors' claims.¹⁴ Thus, these rulings underscored the urgent need of clear legislative framework, because prior laws did not dispute the priorities of the creditors' rights at all and left the resolved legal issues open for broad room for interpretation and uncertainty. Following the IBC, sec. 53 aims to remove the noise which made it difficult to identify the order of payment of debts by replacing that with a rigid payment scheme. The law lays down that any debts belonging to the same class of creditors are to be discharged in full or

¹²Companies Act, 1956, sections 529, 529A, Act No. 1 of 1956 (India).

¹³Transfer of Property Act, 1882, section 48, Act No. 4 of 1882 (India).

¹⁴*ICICI Bank v. Sidco Leathers Ltd. and Others*, (2006) 10 SCC 452.

proportionally using the proceeds in circumstances where assets are insufficient. This provides for the same terms in regard to the distribution of creditors in a health rate, therefore, *pari passu* is implemented.

Notwithstanding these applied law directions, the implementation of Section 53 amid such circumstances when creditors are forfeiting their securities freedom of the choice is still to be judged by the court. The NCLAT expressed its opinion in *Technology Development Board v. Anil Goel*,¹⁵ indicating that a secured creditor surrenders their security when the liquidation court orders the sale of attached property, hence the proceeds from such sale must be distributed among stakeholders in accordance with the waterfall mechanism. This move generated a status of them being at the lesser priority for their creditors compared to those who went on the security interest defensive of their security rights.

The legal structures and the judicial interpretations here emphasize that there is a continuous and dynamic process of evolving of bankruptcy jurisprudence in the country, which in turn becomes a basis for providing clear directions to the process of resolving insolvency cases. The IBC with its power to divide the proceeds in an orderly and clear procedure and to ensure the top priority of claims of all categories, stands as the first positive aspect of the act in the creation of a more creditors' friendly environment.

A Comparison between IBC & Companies Act, 2013 vis-à-vis Waterfall Mechanism

IBC endorsement in year 2016 where in process of insolvency resolution is done in a comprehensive way rather than before introduced legislation like Companies Act, 2013. As a consequence, going back and forth between these two concepts has led to periodic discussions about the exact roles and the more delicate nuances differentiated between them in liquidating or reorganizing a bankrupt company.

For bankruptcy of a company pursuant to Companies Act, 2013, section 326¹⁶ contains a principle of ranking creditors in order of the repayment with the non-priority credits forming sequence of payment in the case of liquidation. Such hierarchy embodies the order of priorities; secured creditors are moved face-back after employee's claims are duly settled,

¹⁵Company Appeal (AT) (Insolvency) No.731 of 2020.

¹⁶Companies Act, 2013, section 326, Act No. 18 of 2013 (India).

that is, each employee for his accumulated vacation pay for the two years before the winding- up order. Given the main Act's ability to individually handle tied-up workers' dues, the creditor's payments have to be settled immediately on the proceeds of the sold off company's assets and not otherwise within 30 days of the sale.

Contrastingly, the IBC invests in a priority framework under Section 53, whereby the emphasis is set on a quick and commensurate settlement of insolvency scenarios perfected further during the process of winding it up. The code of insolvency denies payment of costs of insolvency and liquidation of pre-petition claimants above others. After that, the allowed claims of workmen for the twenty-four months preceding the appointment of liquidators and the claims of the secured creditors who have no more security are addressed in the hierarchy of pay order which is of the same priority. This format is a huge departure and changing from the Company's Act towards the consideration of workers' rights as they are attached with the secured lenders who give up their collateral securities.

The other classification would become more explicitly drawn in the following through the opposing treatments of other creditors. The IBC ensures the payment of wages and dues to the employees, but only for employees who are not classed as ‘workers’. The assets are to be liquidated from the business date that started the liquidation procedure. What suffices to say is that, the six months period, is about twice longer than the four months under the Companies Act. This shows a wider scope of protection for employees under the IBC. The IBC is, though, furthered by introducing the provisions applicable not only to secured and unsecured creditors, but also to the operational creditors, and dissenting financial creditors. This points to a more inclusive and delicate approach towards resolving the company’s liabilities.¹⁷

It is evident that the first order of government dues prioritization differs depending on whether it refers to the Foreign Relations or Finance Act of 2002. The IBC, in this context permits a season of two years preceding administration date as against the Companies Act, which provide only a year window in the repayment scheme. Also, the IBC is amended, including the two important acts: IBC Amendment Act of 2019 & 2020¹⁸ that came in to

¹⁷ *Section 53 of IBC: The Heart of Insolvency Law*, VINOD KOTHARI AND COMPANY, <https://vinodkothari.com/wp-content/uploads/2020/04/Section-53-of-IBC.pdf> (last visited Apr. 23, 2024).

force with the objective to bring more flexibility and responsiveness in to the IBC framework keeping pace with change in the financial market and interests of the various stakeholders.

Given the above findings, it is apparent that while IBC and Companies Act are both, designed to tackle the problem of credibility repayment during an economic recession the solutions, type and priority the both legislations propose and effect are dramatically unlike. The IBC offers a specialized appeal which is clearly displayed in its approach towards resolving the issue of insolvency effectively and considering different creditor claims with complete impartiality, unlike the Companies Act which emphasizes on a simple approach under the same to the issue of insolvency. This is not only cursive to the quick settlement but also pursue the best for the whole stakeholders and hence reduce the duplicity and legal clashes in Indian corporate insolvency forest.

Judicial deviation from the waterfall mechanism's path

In the several rulings pronounced by the Indian Supreme Court the satisfactory and functional features of the IBC, 2016, while specifically under Section 53 of the Code has been the subject of highest priority. This procedure refers to the preferred process of claiming a set of bankrupted firm’s assets wherein the order of priority is determined for the settlement of the resulting creditors in an orderly fashion. Nevertheless, where the notion of “Penny wise, pound foolish?” is concerned, the judiciary seems to be shifting from the strict application of the set order of priority followed by precedence to a legal debate-stimulating trend with an increasing number of deviations from the previously established priority system.¹⁹

*State Tax Officer v. Rainbow Papers Limited*²⁰ is just one of these many other situations that brings to light this transformation.²¹ In this case, the court goes against the accepted opinion and uses a modified version of waterfall that is outlined in IBC. The problem that has occupied Rainbow Papers is how

big players of the state and federal corporation react. Section 48 of the Gujarat act 2003 gives first right charge on the property of a corporate debtor to the state tax authority, as per Gt for the vicarious liability tax. In the view of the

¹⁹ *Supreme Court upholds waterfall mechanism under IBC; Division Bench overturns Rainbow ruling*, BAR AND BENCH (Aug. 24, 2023), <https://www.barandbench.com/columns/supreme-court-upholds-waterfall-mechanism-under-ibc-2-j-bench-overturns-rainbow-ruling>.

²⁰ *State Tax Officer v. Rainbow Papers Ltd.*, (2022) 9 S.C.C. 401 (India)

present case, the office of the tax authority of the state gained a secured interest with Rainbow Papers, which in turn hindered the priority established by Section 53 of the Code or the Bankruptcy. This would empower the First Rank Creditors, in this case, the state authorities, over the other state-specific statutory creditors.

Likewise, in *Jet Aircraft Maintenance Engineers Welfare Association v. Ashish Chhawchharia*²² Resolution Professional of Jet Airways India Limited deviated case was presented in spite of the waterfall prescribed in the IBC.²³ Consequently, the court's decision regarding this case set the precedence in favour of the providers dedicated to their employees' provident fund and gratuity payments. Although IBC provides such entitlements with priority nonetheless, these periods are clearly specified and last for 2 years before insolvency is declared. Although the bench ruled that Jet Airways has to honour this responsibility without the period limited as per the IBC frame, it hence prolongs the responsibility beyond the period required which is 24 months. This creates an additional financial burden on the insolvent entity, which gives adverse outcomes during the conduct of IBC.

The above deviations demonstrate how judiciary might selectively prefer certain creditors over others, trying to consider single case of a debtor or generally socio-economic issues and for example, employee welfare. The dynamic condition shown up in this evolving case law is not only the result of a complex correlation between federal and state legislation but, at the same time, it appears to be an issue of balancing between protecting the rights of local creditors (like state tax authorities) and of keeping up with a uniform federal system used to administer insolvency matters.

These scenarios, in particular, pointing to the necessity of the law-makers to bring to light the requirements of clarity and possible reform of the insolvency laws in order to fit them with other sectoral regulations. They thus propose the probable possibility of exemptions and modifications examples in the use of the IBC, to be the case that although it provides a simple order hierarchy for claims, the presence of complex and unusual instances in the real world in most cases translate to some degree of modification in implementation.

²²*Jet Aircraft Maintenance Engineers Welfare Association v. Ashish Chhawchharia* [2020] 3 SCC 406.

Financial Creditors' Dilemma

Under the Companies Act, 1956, employees' compensation and secured creditors were to be treated equally regardless of whether the secured creditor gave up the ability to reclaim security. The Code has divided creditors into three groups for liquidation purposes." Two more categories of "Secured Financial

Creditors" are those who have realized their security and those who have given up their security. Consequently, the Secured Financial Creditors are accorded the highest priority. It should be emphasized that the waterfall mechanism permitted by the Code is incompatible with the previously stated position of the previous Act. A two-way administration system for the securities is provided by the code. A creditor may choose to take liquidation profits under Section 53 of the Code, which entitles them to pari passu with the claims of workmen's dues, or they may realize their security interest on their own in accordance with Section 52 of the Code²⁴ A dispute arises between the Act and the Code when a secured creditor decides to realize the security interest apart from the liquidation procedures. If the secured creditor decides to realize his security interest without turning it over to the liquidation estate, any unrealized amount is listed below the unsecured creditors in the liquidation processes. This is in opposition to the prior Act, which under the waterfall system granted them equal precedence. Obtaining credit for beneficial purposes stimulates the economy, generates income, establishes employment, and encourages entrepreneurship. It is crucial to remember that granting precedence to any other claim above the rights of Secured Financial Creditors would go against the objective of the statute. Presently, it is evident that the Secured Creditors must make a tough choice about whether to acknowledge their security and choose for a lower priority than the Unsecured Financial Creditors, or to give up their security and receive a higher priority. Financial creditors are discouraged from investing in corporations of any sort when they witness significant reductions.

Interests of Operational Creditors

An operational creditor is any person to whom an operational debt is owed, including those to whom it has been rightfully assigned or transferred. It is assumed at the beginning of the liquidation procedure that certain parties will find it to be a difficult process. They claim that the whole liquidation process is doomed from the outset and that neither the Code nor the Act sufficiently takes into account the interests of the operational creditors, as evidenced by the fact that the operational creditors are placed sixth in the Code's hierarchy for the liquidation process, under the heading "any remaining debt or dues." This hierarchy appears to be biased against the operational creditors because, in the majority of cases, the proceeds from the liquidation process are insufficient to cover even the claims made by the financial creditors, which is particularly true in the Indian context, where the operational creditors are usually small and medium-sized businesses. No creditor will be willing to offer products or services on credit to any corporate debtor if the interests of the operational creditors are ignored. The Indian economy will be significantly impacted by their demand for payment in full up front for goods and services. Thus, striking a balance between financial and operational creditors is essential.

Scope of the liquidator's power

A liquidator must oversee the whole liquidation process, from the liquidation order to the CD's dissolution. In accordance with the objectives of the Code, he must take all assets, fairly assess them, and dispose of them in an honest and transparent manner. In the meanwhile, he must cling onto them and keep them safe. To bring everything together, He must level claims and investigate them. He could then decide to accept or reject the accusations. In the event of a lawsuit, prosecution, or other legal action, whether civil or criminal, he will defend the CD in its name and on its behalf. Under the 2016 Insolvency and Bankruptcy Code, a creditor has fourteen days from the date of receipt to appeal the liquidator's decision to accept or reject the claims to the Adjudicating Authority²⁵

The Liquidator may confer with or appoint any professional in the course of carrying out his duties, obligations, and responsibilities. Additionally, Adjudicating Authority's instructions may be examined in case further clarification is required.

Conclusion and Suggestions

Considering that secured creditors enter into agreements establishing their priority rights during the lending process, they typically face lower risks in the event of a borrower's default and insolvency. However, it is notable that IBC does not directly address these concerns. In contrast to section 53(2) of the IBC, which deals with deviations from the established hierarchy in the distribution of assets, the current legislation does not clarify the issue regarding the position of secured creditors when their security interest is forfeited. This omission suggests that the legal framework is still developing, and lacks detailed provisions on these aspects.

Additionally, the subject of genetically modifying humans raises inherent legal and ethical questions, with no definitive answers. The issue also touches on the scenario where priority rights, tied to a security interest, could be lost if the security is forfeited. This indicates a broader challenge within the IBC to balance the interests of various stakeholders while attempting to achieve its objectives. Bridging this gap is essential to better serve the needs of all parties involved and to ensure the efficacy of the IBC's framework.