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Report of Working Group I (MSMEs) on the work of its thirty-second session (New York, 25–29 March 2019)

Contents

			Page
I.	. Introduction		2
II.	Org	anization of the session	4
III.	Deliberations and decisions		5
IV.	Preparation of legal standards in respect of micro, small and medium-sized enterprises: draft legislative guide on an UNCITRAL Limited Liability Organization (UNLLO)		5
	A.	Presentation of A/CN.9/WG.I/WP.114 and introductory observations	5
	B.	Introduction	6
	C.	Establishment and operation of the UNLLO	6
	D.	Management of the UNLLO	7
	E.	Members' share of and contributions to the UNLLO	9
V.	Future work		10
VI.	Other matters.		







I. Introduction

(a) Preparation of legal standards in respect of micro, small and medium-sized enterprises

- 1. At its forty-sixth session, in 2013, the Commission requested that a working group should commence work aimed at reducing the legal obstacles encountered by micro, small and medium-sized enterprises (MSMEs) throughout their life cycle. At that same session, the Commission agreed that consideration of the issues pertaining to the creation of an enabling legal environment for MSMEs should begin with a focus on the legal questions surrounding the simplification of incorporation. The Commission reaffirmed the mandate of the Working Group at its forty-seventh to fifty-first sessions, from 2014 to 2018 commending the Working Group for the progress made.
- 2. At its twenty-second session (New York, 10 to 14 February 2014), Working Group I (MSMEs) commenced its work according to the mandate received from the Commission. The Working Group engaged in preliminary discussion in respect of a number of broad issues relating to the development of a legal text on simplified incorporation⁴ as well as on what form that text might take,⁵ and business registration was said to be of particular relevance in the future deliberations of the Working Group.⁶
- 3. From its twenty-third session (Vienna, 17 to 21 November 2014) to its thirtieth session (New York, 12 to 16 March 2018), the Working Group proceeded to consider two main topics aimed at the creation of an enabling legal environment for MSMEs: the legal issues surrounding the simplification of incorporation and good practices in business registration. At its twenty-third session, the Working Group commenced its deliberations on the legal issues surrounding the simplification of incorporation by considering the questions outlined in the framework set out in working paper A/CN.9/WG.I/WP.86, and agreed that it would continue its consideration of the working paper at its twenty-fourth session beginning with paragraph 34 of that document.
- 4. At its twenty-fourth session (New York, 13 to 17 April 2015), after initial consideration of the issues as set out in working paper A/CN.9/WG.I/WP.86, the Working Group decided that it should continue its work by considering the first six articles of the draft model law and commentary thereon contained in working paper A/CN.9/WG.I/WP.89, without prejudice to the final form of the legislative text, which had not yet been decided. Further to a proposal from several delegations, the Working Group agreed to continue its discussion of A/CN.9/WG.I/WP.89, bearing in mind the general principles outlined in the proposal, including the "think small first" approach, and to prioritize those aspects of the draft text in A/CN.9/WG.I/WP.89 that were the most relevant for simplified business entities. The Working Group also agreed that it would discuss the alternative legislative models for MSMEs introduced in A/CN.9/WG.I/WP.87 at a later stage.
- 5. At its twenty-fifth session (Vienna, 19 to 23 October 2015), the Working Group resumed its consideration of the draft model law on a simplified business entity as

¹ Official Records of the General Assembly, Sixty-eighth Session, Supplement No. 17 (A/68/17), para. 321.

² For a history of the evolution of this topic on the UNCITRAL agenda, see A/CN.9/WG.I/WP.108, paras. 5 to 24.

³ Official Records of the General Assembly, Sixty-ninth Session, Supplement No. 17 (A/69/17), para. 134; ibid., Seventieth Session, Supplement No. 17 (A/70/17), paras. 225 and 340; ibid., Seventy-first Session, Supplement No. 17 (A/71/17), para. 347; ibid., Seventy-second Session, Supplement No. 17 (A/72/17), para. 235; and ibid. Seventy-third Session, Supplement No. 17 (A/73/17), para. 112.

⁴ See Report of Working Group I (MSMEs) on the work of its twenty-second session A/CN.9/800, paras. 22 to 31, 39 to 46 and 51 to 64.

⁵ Ibid., paras. 32 to 38.

⁶ Ibid., paras. 47 to 50.

contained in working paper A/CN.9/WG.I/WP.89, starting with Chapter VI on organization of the simplified business entity, and continuing on with Chapter VIII on dissolution and winding up, Chapter VII on restructuring, and draft article 35 on financial statements (contained in Chapter IX on miscellaneous matters).⁷

- 6. At its twenty-sixth session (New York, 4 to 8 April 2016), the Working Group reviewed Chapters III and V of working paper A/CN.9/WG.I/WP.89. Following its discussion of the issues in those chapters, 8 the Working Group decided that the text being prepared on a simplified business entity should be in the form of a legislative guide, and requested the Secretariat to prepare for discussion at a future session a draft legislative guide that reflected its policy discussions to date (see A/CN.9/WG.I/WP.99 and Add.1).9
- 7. At its twenty-seventh session (Vienna, 3 to 7 October 2016), the Working Group considered the issues outlined in working papers A/CN.9/WG.I/WP.99 and Add.1 on an UNCITRAL limited liability organization (UNLLO), beginning with section A on general provisions (draft recommendations 1 to 6), section B on the formation of an UNLLO (draft recommendations 7 to 10), and section C on the organization of an UNLLO (draft recommendations 11 to 13). The Working Group also heard a short presentation of working paper A/CN.9/WG.I/WP.94 of the French legislative approach known as an "Entrepreneur with Limited Liability" (or EIRL), which represented a possible alternative legislative model applicable to micro and small businesses.
- 8. At its twenty-eighth session (New York, 1 to 9 May 2017), the Working Group continued the work begun at its twenty-seventh session, and considered the recommendations (and related commentary) of the draft legislative guide on an UNLLO in sections D (draft recommendations 14 to 16), E (draft recommendations 17 and 18) and F (draft recommendations 19 to 21) of documents A/CN.9/WG.I/WP.99 and Add.1.
- 9. The Working Group devoted its twenty-ninth (Vienna, 16 to 20 October 2017) and thirtieth (New York, 12 to 16 March 2018) sessions to reviewing the draft legislative guide on key principles of a business registry.
- 10. Following the adoption of the UNCITRAL Legislative Guide on Key Principles of a Business Registry by the Commission in July 2018, the Working Group resumed its discussion on the draft legislative guide on an UNLLO at its thirty-first session (Vienna, 8 to 12 October 2018). At that session, the Working Group considered a revised draft of the legislative guide (contained in A/CN.9/WG.I/WP.112) including changes arising from its deliberations at its twenty-seventh and twenty-eighth sessions. The following selected recommendations, and relevant commentary, were discussed: recommendations 7 to 12 (Sections B on formation and C on organization), save for recommendation 10 and relevant commentary; recommendation 15 (Section D on management) and recommendations 16 and 17 (Section E on ownership of the UNLLO and contributions by members).

(b) Colloquium on contractual networks and other forms of inter-firm cooperation

11. At its fifty-first session, ¹⁰ the Commission heard a proposal on possible future work on contractual networks (A/CN.9/954) which clarified aspects of an earlier proposal ¹¹ presented at its fiftieth session, in 2017. Following discussion, the Commission agreed that a colloquium should be held in the context of a future session of the Working Group to further analyse the relevance of the contractual networks to the current work on developing an enabling legal environment for MSMEs and the

V.19-02482 3/10

⁷ See Report of Working Group I (MSMEs) on the work of its twenty-fifth session, A/CN.9/860, paras. 76 to 96.

⁸ See Report of Working Group I (MSMEs) on the work of its twenty-sixth session, A/CN.9/866, paras. 23 to 47.

⁹ Ibid., paras. 48 to 50.

Official Records of the General Assembly, Seventy-third session, Supplement No. 17 (A/73/17), paras. 241 to 253.

¹¹ See A/CN.9/925.

desirability of taking up work of those networks. In addition, it was agreed that the colloquium should also explore legal tools that achieve goals similar to contractual networks that were being used in both civil and common law jurisdictions. The colloquium was scheduled to be held during the thirty-second session of the Working Group.

II. Organization of the session

- 12. The first two days (25–26 March) of the session were devoted to a colloquium on contractual networks and other forms of inter-firm cooperation (see para. 11 above). Following the colloquium, the Working Group convened on 27 to 29 March.
- 13. Working Group I, which was composed of all States Members of the Commission, held its thirty-second session in New York from 25 to 29 March 2019. The session was attended by representatives of the following States Members of the Working Group: Argentina, Austria, Brazil, Canada, China, Czechia, France, Germany, India, Indonesia, Iran (Islamic Republic of), Italy, Japan, Kenya, Kuwait, Libya, Nigeria, Philippines, Poland, Republic of Korea, Russian Federation, Sierra Leone, Singapore, Spain, Switzerland, Thailand, Turkey, and United States of America.
- 14. The session was attended by observers from the following States: Algeria, Belgium, Croatia, Democratic Republic of the Congo, Dominican Republic, Finland, Iraq, Morocco, Netherlands, Saudi Arabia, Sudan, Uruguay and Viet Nam.
- 15. The session was also attended by observers from the European Investment Bank (EIB).
- 16. The session was also attended by observers from the following international organizations:
 - (a) Organizations of the United Nations system: World Bank (WB);
- (b) Intergovernmental organizations: Economic Cooperation Organization (ECO), Gulf Cooperation Council (GCC), Maritime Organization of West and Central Africa (MOWCA), and Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA);
- (c) Invited international non-governmental organizations: American Bar Association (ABA), China Society of Private International Law (CSPIL), Conseils des Notariats de l'Union Européenne (CNUE), Grupo Latino Americano de Abogados para el Derecho del Comercio Internacional (GRULACI), Inter-American Bar Association (IABA), International Bar Association (IBA), International Union of Notaries (UINL), Law Association for Asia and the Pacific (LAWASIA), Moot Alumni Association (MAA), and National Law Center for Inter-American Free Trade (NLCIFT).
- 17. The Working Group elected the following officers:

Chair: Ms. Maria Chiara Malaguti (Italy)

Rapporteur: Ms. Katarzyna Michalak (Poland)

- 18. In addition to documents presented at its previous sessions, the Working Group had before it the following documents:
 - (a) Annotated provisional agenda (A/CN.9/WG.I/WP.113);
- (b) Note by the Secretariat on a draft legislative guide on an UNCITRAL Limited Liability Organization (A/CN.9/WG.I/WP.114).
- 19. The Working Group adopted the following agenda:
 - 1. Opening of the session.
 - 2. Election of officers.

- 3. Adoption of the agenda.
- 4. Preparation of legal standards in respect of micro, small and medium-sized enterprises.
- 5. Consideration of the findings of the colloquium on contractual networks and other forms of inter-firm cooperation.
- 6. Other business.
- 7. Adoption of the report.

III. Deliberations and decisions

- 20. The Working Group engaged in discussions in respect of the preparation of legal standards aimed at the creation of an enabling legal environment for MSMEs, in particular, on a draft legislative guide on an UNCITRAL Limited Liability Organization (A/CN.9/WG.I/WP.114). The deliberations and decisions of the Working Group on these topics are reflected below.
- 21. The Working Group also considered the findings of the colloquium on contractual networks and other forms of inter-firm cooperation (see para. 51 below).

IV. Preparation of legal standards in respect of micro, small and medium-sized enterprises: draft legislative guide on an UNCITRAL Limited Liability Organization

A. Presentation of A/CN.9/WG.I/WP.114 and introductory observations

- 22. The Working Group heard a short introduction on working paper A/CN.9/WG.I/WP.114 that outlined the main changes of the document arising from the deliberations of the Working Group at its thirty-first session. It was said that in addition to such changes the Secretariat had made adjustments that were not discussed at that session in an effort to facilitate an improved understanding of the text. In particular, it was noted that Section D of the draft Guide (Management of the UNLLO) had been reorganized to better clarify the management structures an UNLLO could have. Further, adjustments in the terminology used in the draft Guide had been made to eliminate confusion created by the terms manager-managed and member-managed used in previous versions of the text.
- 23. It was further said that, as requested by the Working Group at its last session, the Secretariat had identified portions of the draft Guide where a separate discussion on single member UNLLOs and more sophisticated forms of UNLLOs could be introduced. It was, however, noted that such an approach had been limited to a small number of sections as it was thought that emphasizing a dual approach in several parts of the text was not fully consistent with the paradigm of "think small first" on which the draft Guide was founded.
- 24. Finally, the Secretariat drew the attention of the Working Group to a few aspects of the draft Guide that would benefit from further consideration by the Working Group, including the following:
- (a) Whether the members' agreement should be recorded and whether a single member UNLLO would need a members' agreement, and if this was the case whether it would require different features than the members' agreement in a multi-member UNLLO;
- (b) Whether reference to the "formation document" should be replaced with reference to "formation data" when such reference was made to indicate the information itself that was required to register an UNLLO; and

V.19-02482 5/10

(c) Which rights were created by a "share" in the UNLLO, as such rights could encompass both financial and decision-making rights.

Concern was expressed that the current draft of the Guide seemed closer to a classical corporate model rather than an innovative one based on a "think small first" paradigm. It was noted that such an approach, if chosen, would require re-discussing several aspects of the draft text.

B. Introduction

- 25. The Working Group agreed to commence its deliberations on the draft Guide with a discussion of the aspects described by the Secretariat in paragraph 24, above.
- 26. The Working Group generally agreed with the approach to clearly distinguish between a "members' agreement" and "formation data" (see para. 24 above). It was further agreed that "formation data" would not need to be a defined term and the draft Guide could instead refer to "information provided to the business registry".
- 27. It was felt that the term "members' agreement" may inadvertently exclude single-member UNLLOs, which would need a set of operational rules regardless of whether any agreement had been reached. The Working Group agreed to use "organization rules" as a defined term instead.
- 28. It was also noted that the current definition of "members' agreement" in the Terminology section included the word "recorded". The Working Group discussed whether such organization rules would need to be recorded, and if so, in what form (for example, written or electronic). The importance of an evidentiary requirement was noted. It was further noted that it would be unnecessary to include an evidentiary requirement in the Terminology section. After discussion, the Working Group agreed to remove the word "recorded" from the definition and to consider the mandatory nature of an evidentiary requirement on a case-by-case basis as it proceeded through the draft Guide.

C. Establishment and operation of the UNLLO

1. Formation of the UNLLO and recommendation 9

29. The Working Group discussed whether additional mandatory information should be included in draft recommendation 9 to align with recommendation 21 of the UNCITRAL Legislative Guide on Key Principles of a Business Registry. It was recalled that the subject had received attention at the Working Group's thirty-first session and the Working Group agreed to leave the recommendation as drafted, noting that previous deliberations had not specified which parts of the required information would be made public.

2. Organization of the UNLLO

Paragraphs 55 to 58 and recommendation 10

30. Returning to the previous discussion about how UNLLO members may adopt organization rules, the Working Group discussed whether draft recommendation 10 should require that organization rules be recorded in some form. Some views were expressed that oral agreements and agreements by conduct were common and that members of an UNLLO would, in practice, be likely to develop rules orally and by conduct or to deviate over time from recorded rules. Requiring written organization rules was further stated to impose additional transactional costs on members of the UNLLO, who could otherwise rely on the default rules in the draft Guide. It was noted that some legal forms in some jurisdictions do not require organization rules to be recorded. Others were of the view that requiring an UNLLO to document its rules would assist members in understanding the default rules, and that organization rules would have effect vis-à-vis third parties, who would not be able to rely on

non-recorded deviations from the default rules and the UNLLO would therefore likely to be required to provide documented organization rules. It was further stated that such a document would provide evidence and assist in record-keeping. Finally, the need for transparency and traceability of UNLLO's operations was noted and it was said that recording the organization rules of UNLLO would mitigate the risk that UNLLO be misused for illicit purposes, including money-laundering.

- 31. After discussion, the Working Group agreed that a requirement to record organization rules should be left to States to decide, and that the commentary to recommendation 10 should reflect the policy choice that States would need to make by considering advantages and disadvantages of such a requirement. It was further agreed that the recommendation should be redrafted in that manner.
- 32. With this regard, the Working Group heard drafting proposals for a revised recommendation 10. After discussion, the Working Group agreed that the recommendation should be redrafted along the following lines: "The law should: (a) indicate, where a member or members of the UNLLO adopt organization rules, what form these rules may take; and (b) provide that the organization rules may address any matters relating to the UNLLO in so far as they do not contradict the mandatory rules set out in recommendations 1, 2, 3, 4, 6, 7, 8, 9, 16(a), [15],19, 20, 23(c), 25 and 26 [to be further determined] in this Guide."
- 33. A suggestion to encourage States to adopt and make available model [written] organization rules for members to adopt if they so wish received the support of the Working Group, as was a suggestion to provide such a model in the draft Guide. 12

D. Management of the UNLLO

Paragraphs 59 to 62 and recommendation 11

- 34. The Working Group considered section D on Management of the UNLLO and expressed broad agreement on the new structure of the section that was said to improve clarity of the text. Comments were made on the current revision of recommendation 11, which was said to be overdetailed, thus detracting from the simplicity and linearity of the text. Different views were heard on how to simplify the text of the recommendation while preserving the concept that an UNLLO could be managed by all of its members exclusively (the default rule) or that the members could choose a different structure. After discussion, the Working Group agreed to redraft the text of the recommendation along the following lines: "The law should provide that the UNLLO is managed by all of its members exclusively, unless it is indicated in the organization rules that the UNLLO shall appoint one or more designated managers".
- 35. In relation to recommendation 11, the Working Group discussed issues of terminology as to the use of the term "designated manager". It was said that in some instances the use of the term "manager", such as in recommendations 15 and 16, applied to both designated managers and to UNLLO members when all of them exclusively managed the UNLLO, and it was suggested that such use could create confusion. Views were expressed that the definition of designated manager in the Terminology section could be eliminated and replaced with that of "manager" which would be applicable to any person managing an UNLLO, regardless of whether such person was a member or not. Concern was expressed that defining "manager" would generate confusion since "manager" was a term widely understood. The Working Group confirmed the need for a specific term for cases in which an UNLLO was not managed by all of its members exclusively.

V.19-02482 **7/10**

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¹² As to model forms that could be made available in the draft Guide, see also paragraph 58 of A/CN.9/963.

Paragraphs 63 and 64 and recommendation 12

- 36. It was noted that the recommendation focused on internal management decisions and not on external representation, or the ability to bind an UNLLO, and there was support to clarify that point in the commentary.
- 37. Given that draft recommendation 12(b) dealt with ordinary management decisions, the Working Group agreed that differences should be resolved by a majority of members by number. It was also agreed that the determination of "qualified majority" could be discussed by the Working Group when it reviewed the concept of share.
- 38. It was noted that members would have the ability to remove a member from a managerial role, but that would not affect the member's rights as a member. It was felt that there could be potential confusion between the rights of members and rights of members as managers. A proposal to add a section in the draft guide that described the rights and consequences of being a member (regardless of whether such member was also a manager) was therefore supported by the Working Group. It was felt that that section could discuss the manner in which members could amend the organization rules.
- 39. The Working Group agreed to remove the phrase "ordinary course of business" from the draft recommendation, provided that the recommendation could be drafted to contain an exhaustive list of "extraordinary" matters that would need to be resolved by a qualified majority or unanimity of the members. Support was given to the view that such an exhaustive list should be subject to modification by the enacting State to better accommodate different legal traditions. Given the externalities of rules requiring unanimity, such as veto power, it was recalled that the Working Group had decided at its twenty-seventh session (para. 63, A/CN.9/895) that the default rule to resolve differences arising outside of the ordinary course of business would be by qualified majority, but it was agreed to revisit the issue, along with the list, at a future session.
- 40. The Working Group considered whether to include expulsion in the list of matters that would fall outside of the ordinary course of business. It was generally felt that some guidance on the issue should be provided but it was not felt that a new section relating specifically to expulsion should be included in the draft guide.

Paragraphs 65 to 68 and recommendations 13 and 14

- 41. Given the decision to include a list of matters that would fall outside the ordinary course of business in draft recommendation 12 (see para. 39 above), it was agreed to include a similar list in the section on designated managers. It was also suggested that guidance be provided in draft recommendation 14(b) on instances in which the disagreement was equal (e.g., situations where there were two managers with a difference of opinion).
- 42. It was noted that paragraph 66 of the commentary provided a cross-reference to draft recommendation 9(c), but it was also noted that 9(c) referred only to information required upon formation, whereas paragraph 66 discussed an instance in which case information would need to be updated. A proposal to create a new section on information of the UNLLO that is to be made public for the benefit of third parties was taken up by the Working Group, and it was agreed that paragraph 66 could refer to this new section. The request for a new section on the powers of members was reiterated (see para. 38 above).

Paragraphs 69 to 71 and recommendation 15

43. It was stated that one way to provide notice to third parties on a restriction upon a manager's authority to bind an UNLLO could be provided in the business registry. However, it was noted that in many jurisdictions such notice may not be sufficient and a different standard, such as actual knowledge of the limitation, may be applied.

It was therefore agreed that "proper notice" should be retained in the recommendation but not be defined in the commentary and that the matter should be left to State law.

Paragraphs 72 to 77 and recommendation 16

- 44. The Working Group discussed the list of duties in draft recommendation 16(a) and the value of retaining the list or using the term "fiduciary duties" as it appeared in 16(b). It was stated that most jurisdictions would have their own understanding of fiduciary duties and that those duties may be less or more than those enumerated in the draft Guide or may vary in some fashion. It was felt that the duties should not attempt to displace national laws. After discussion, the Working Group agreed to list a duty of care and duty of loyalty in draft recommendation 16(a), leaving the possibility open for States to include additional mandatory duties, including fiduciary duties of members who were not managers. The Secretariat was requested to modify the commentary accordingly. It was also agreed to specify that the duties were owed to the UNLLO.
- 45. It was noted that "manager" as used in draft recommendation 16 would apply to all managers, regardless of the managerial structure of the UNLLO, although it was felt this should be clarified in the commentary. With this in mind, it was recognized that members who were managers would owe fiduciary duties to the UNLLO and recommendation 16(b) could therefore be deleted.

E. Members' share of and contributions to the UNLLO

Paragraphs 78 to 83 and recommendation 17

- 46. The Working Group resumed its discussion and reconsidered the use of the word "share", noting its corporate connotations. It considered other terms such as "membership rights", "financial position" and "membership share", before agreeing to continue to use the term share. Although the draft definition of "share" included both economic and decision-making rights, it was recalled that the Working Group had decided to tabulate votes per headcount, rather than by proportional share in the UNLLO (see para. 37 above). It was also noted that the term share, when used in the commentary of the draft guide, was limited to economic rights. Recalling further its decision to include a new section and recommendation on the rights of members generally (see para. 38 above), it was agreed that the definition of share should be limited to economic rights.
- 47. With regard to recommendation 17, it was recalled that the Working Group had agreed upon the language of the recommendation at its thirty-first session. However, some delegations were of the view that the recommendation as drafted could be seen as repetitive and the Secretariat was requested to see if it would be possible to condense 17(c) into 17(a) and (b), bearing in mind that the recommendation had consolidated two previous recommendations. In addition, the Secretariat was requested to evaluate the text of the draft Guide to reduce redundancies about language such as "unless otherwise agreed", noting that some of the recommendations would be mandatory, and that would need to be flagged.
- 48. Further, it was felt that after the inclusion of a new recommendation on the rights of being a member of an UNLLO (see para. 38 above), it may be possible to reduce redundancies in the context of recommendation 17. It was also agreed that more emphasis should be given in the commentary on the value of members agreeing upon their share, as that would reduce instances of the application of the default rules in that recommendation. Similarly, it was noted that the draft Guide should consider the case of new members joining the UNLLO after its formation and their contributions to the UNLLO, which would also reduce instances of the application of the default rules in draft recommendation 17.
- 49. The Working Group also considered the two issues outlined in the Note to the Working Group placed before paragraph 78 of A/CN.9/WG.I/WP.114. With regard to

V.19-02482 9/10

the inclusion in the draft Guide of a discussion on how members of the UNLLO should valuate non-monetary contributions, there was broad agreement that this aspect should be left to the consideration of the members in their organization rules. Reference to such an approach could be included in the commentary to draft recommendation 17.

50. As to whether the draft Guide should address the separation of personal assets from business assets in a single-member UNLLO, the Working Group agreed that this issue should be left to Working Group V on Insolvency. It was noted that Working Group V would discuss the matter at its fifty-fifth session in May 2019.

V. Future work

51. The Working Group noted the findings of the colloquium on contractual networks and other forms of inter-firm cooperation and discussed the appropriate way to reflect them in the final report of its thirty-second session. It was agreed that the topics discussed at the colloquium were interesting and innovative in many ways. One delegation noted that the governance aspect of contractual networks and multiparty contracts was a cutting-edge theme which might deserve further consideration in the future as a mechanism that would help address inequality. Another delegation agreed on the innovative aspect of contractual networks but noted that they incorporated several dimensions which might require separate consideration. Overall, the Working Group agreed that consideration of such topic would not be a matter of priority in the context of its current work.

VI. Other matters

52. The Working Group agreed that at its thirty-third session scheduled in Vienna, tentatively on 7 to11 October 2019, it would start its deliberations from the new section to be drafted by the Secretariat on the rights of the UNLLO members (see para. 38 above) and would then consider sections E to L of the draft Guide.