



August 1, 2011

*Support H.R. 2533, the "Chapter 11 Bankruptcy Venue Reform Act of 2011"*

Dear Colleague:

A provision in existing bankruptcy venue law allows large corporations to file their chapter 11 reorganization cases in courts that are thousands of miles from their employees, creditors, and headquarters. In December 2001, Enron Corporation—a Houston-based company with 7,500 employees at its headquarters, \$65 billion in claimed assets, and a history of committing fraud on creditors, employees, and many others—filed for chapter 11 bankruptcy protection 1,500 miles from Houston in the Southern District of New York. In June 2009, General Motors Corporation also filed a chapter 11 bankruptcy petition in New York, hundreds of miles from its Michigan-based operations, employees, and creditors. More recently, on June 27, 2011, the Los Angeles Dodgers filed a chapter 11 case in the District of Delaware, apparently preferring to play a road game instead of taking the home field.

When a large chapter 11 case travels across the country to be heard in a remote venue, many of the business's stakeholders lose out. Local trade creditors that have shipped goods to the debtor frequently cannot afford to pay expensive New York or Delaware legal fees to pursue their claims and so are forced into long-distance settlements for cents on the dollar. Employees who work at the headquarters and whose retirement accounts hold stock in the debtor that is likely to be declared worthless lose a meaningful opportunity to make their views known to the bankruptcy court. Meanwhile, the very same management that drove the firm into bankruptcy is often permitted to retain control over the company by filing in venues the bankruptcy community generally regards as management-friendly.

Current venue law allows a corporation to file a chapter 11 bankruptcy case in the district in which it is incorporated. Many companies incorporate in states like New York and Delaware because of their corporate, tax, and other business law, but maintain very few (if any) assets or employees in those states. The chapter 11 venue statute also allows a business to file where any of its affiliates' bankruptcy cases are pending. For instance, this provision allowed General Motors to file the chapter 11 case of a small GM-owned Harlem car dealership in the Southern District of New York and then, only minutes later, file the Detroit-based headquarters in the same venue because the car dealership's case was pending there.

The "Chapter 11 Bankruptcy Venue Reform Act of 2011" changes the rules to prevent a large operating company from choosing a court based merely on its state of incorporation. The bill requires a corporation to file its chapter 11 case in the venue either where it has its principal place of business (*i.e.*, its "nerve center") or where its principal assets are located. These new venue rules will increase the ability of all stakeholders to participate in a bankruptcy reorganization and will make more efficient use of the bankruptcy system by spreading the workload of large chapter 11 cases to judges, bankruptcy lawyers, and turnaround specialists to venues around the country.

For more information about H.R. 2533 or to cosponsor the bill, your staff may contact Travis Norton (Counsel, Judiciary Committee Republican staff) at extension 6-7680 or [travis.norton@mail.house.gov](mailto:travis.norton@mail.house.gov), or Susan Jensen-Lachmann (Counsel, Judiciary Committee Democratic staff) at extension 5-6906 or [susan.jensen@mail.house.gov](mailto:susan.jensen@mail.house.gov).

Sincerely,

Rep. Lamar Smith (R-Tex.)  
Chairman, House Judiciary Committee

Rep. John Conyers, Jr. (D-Mich.)  
Ranking Member, House Judiciary Committee