Guest Editorial: Harris on "Reflections on the Proposed EU Regulation on Succession and Wills"

The second instalment of our 2008 series of Guest Editorials is by Professor Jonathan Harris: **Reflections on the Proposed EU Regulation on Succession and Wills.**

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Reflections on the Proposed EU Regulation on Succession and Wills.

In March 2005, the European Commission issued its Green Paper on Succession and Wills (COM(2005) 65 final). It is now starting work on a draft Regulation. The United Kingdom will, of course, have to decide in due course whether to participate in this venture.

Those not directly concerned with matters of succession law may be excused for taking only a passing interest in the subject. Others may be sceptical about the internal market justification for this initiative. Closer inspection, however, shows that this is a potentially extraordinarily wide ranging and ambitious initiative,

which demands attention. The Regulation may, for instance: alter the procedures adopted in Member States for the administration of estate; affect lifetime dispositions made by gift or on trust prior to the testator's death; and even require Member States to recognise property rights that are unknown in their own domestic legal systems.

The Regulation is intended to cover jurisdiction, recognition of foreign judgments and choice of law. Perhaps the most familiar issue for most people is the choice of law rule for succession to movable and immovable property. For the former, English courts have adopted the common law test of domicile at the time of death. We can confidently expect that this connecting factor will be replaced by habitual residence. If the United Kingdom participates in the Regulation, then, depending upon how the habitual residence test is defined, this might cause some significant change in respect of, for example, a person who dies whilst they are employed overseas for a number of years in State X, whilst intending to return to their state of origin, State Y, in due course.

Much more difficult, however, is the choice of law rule for immovables. It is clear that the European powers that be favour a unitarian system, applying the law of the deceased's last habitual residence to the devolution of the entire estate. Some onlookers will see this as a positive development; not least because it allows a local lawyer to provide advice as to the devolution of a client's estate across Europe, with apparent consequential improvement for the legal position of citizens. Others, however, will wonder about the desirability and feasibility of applying foreign law in relation to land located within the jurisdiction. It is true that, for Contracting States to the Hague Trusts Convention, the possibility of creating a valid trust governed by a foreign law over land located in the jurisdiction already exists. But it seems inconceivable that a court could apply a foreign governing law to, for example, the process by which a right in land is transferred on death; or to the question of whether that right should appear on the land register. Appropriate derogations to the law of the situs will need to be carved out.

A more fundamental matter, however, is the scope of the Regulation and the subject matter that it will encompass. In particular, the Regulation is likely to cover a far wider canvass than what would, in English law, be regarded as matters of succession. For instance, in English law, there is a clear delineation between succession rights and the prior process by which a deceased person's

estate is administered. In England, property is first vested in an executor (if named in the will) or an administrator (if not) appointed by the court, who will deal with outstanding liabilities before distributing the estate. English law also does not automatically recognise the status and competence of an administrator appointed overseas. It may very well be, however, that the Regulation will apply the lex successionis to the administration of estates; even if, for instance, that law vests the property directly in the beneficiaries and requires them to deal with administrative matters. This will, of course, constitute a fundamental change to national procedural processes for dealing with the estates of deceased persons.

But perhaps the most extraordinary aspect of the Regulation is that it seems distinctly possible that it will attempt to address the panoply of property rights that might be created upon death. A testator might, for instance, leave his property on testamentary trust; or subject to a usufruct or a tontine. There was a marked uncertainty in the Green Paper as to the relationship between trusts and the law of succession. The question of whether X has left his property to Y to be held on trust is a succession law issue; but the question of whether the trust itself is valid, the terms of the trust and the rights and obligations of the trustee are trusts specific issues (which, in the United Kingdom, are covered by the Hague Trusts Convention) and emphatically are not succession issues. This distinction between succession law and trusts has properly been drawn in the context of the Hague Succession Convention (Article 14) and the Hague Trusts Convention (Article 15). Indeed, the Hague Trusts Convention is applicable to the operation of the trust itself but not to the preliminary acts by which the property is vested in trustees (Article 4).

If the Regulation were to lay down choice of law rules and recognition rules which extend to all rights arising upon death, then doubtless, the United Kingdom would gain considerably if its testamentary trusts were routinely recognised across Europe. But this does not seem a terribly realistic aspiration. Most Member States of the European Union have shunned the Hague Trusts Convention, pursuant to which they would be required to recognise trusts qua trusts. It is difficult to believe that they will now relish having to recognise such trusts in their legal systems. Moreover, this would lead to the rather bizarre result that Member States would recognise testamentary trusts; but not be required to recognise inter vivos trusts. Yet once the trust is up and running, its genesis is arguably irrelevant to the legal regime that should govern it. Since the Regulation

will also extend to matters of jurisdiction, the possibility exists that the courts of a civilian Member State would be required, for example, to consider the operation of a discretionary trust contained in a will which gives the trustee the discretion to distribute the trust property amongst a group of person specified by the testator, but compels him to exercise the discretion; and to have to determine such questions as whether the trustee has exercised his discretion properly.

Conversely, English courts might be asked to recognise foreign property rights unknown in its legal system such as, for example, a usufruct or a tontine, that might arise according to the lex successionis. Yet it is difficult to see how a Regulation on succession law can seek to regulate all the property rights that exist in the Member States (and, if the Regulation has universal scope, all the property rights that exist in non-Member States as well), or require overseas courts to assert jurisdiction in proceedings relating to such rights. Still less can those States automatically recognise such foreign interests, register them and give effective to them within the context of their own legal systems. Such a Regulation would, in reality, not be a pure succession law Regulation at all; and its potential impact would be enormous.

An equally difficult problem in formulating a suitable Regulation is the issue of clawback. Many legal systems have wide ranging rules on the inclusion in the deceased's estate of assets which he disposed of prior to his death. English law has only a very circumscribed right for relatives of the deceased to make an application to the court for a discretionary award under the Inheritance (Provision for Family and Dependants) Act 1975 where the deceased died domiciled in England and Wales. Otherwise, it places great weight on the sanctity and validity of inter vivos dispositions. Other Member States prefer more extensive protection against testators dissipating assets to prevent their nearest and dearest from getting at them; and in some cases, will include dispositions made many years prior to death. From an English perspective, this has the potential to undermine trusts that were validly created by their governing law, or at least threatens that these assets will be taken into account in assessing a person's entitlement under the will. This, in turn, might also drive investors to offshore trusts jurisdictions, which have legislation that can offer much greater protection against the application of foreign rules of clawback. It remains to be seen if an exclusion from the along the lines of Article 1(2)(d) of the Hague Succession Convention might be feasible. This excludes "Property rights, interests or assets created or transferred

otherwise than by succession, such as in joint ownership with right of survival, pension plans insurance contracts or other arrangements of a similar nature". Article 7(2)(c) muddies the waters somewhat, however, in stating that the lex successionis applies to " any obligation to restore or account for gifts, advancements or legacies when determining the shares of heirs, devisees or legatees". In any event, it is likely that many Member States will wish the question of clawback, and of what assets are included in the deceased's estate, simply to be left to the lex successionis.

The question of testator freedom to choose the governing law will also be an important issue. The ability to choose, for instance, the law of one's habitual residence at the time of making a will would increase the testator's confidence as to the devolution of his estate. For cross-border workers, there may also be benefit in allowing a choice between connecting factors, so as to allow e.g. a person domiciled in England but currently resident in France whilst working there for a fixed term of five years to choose the law of his domicile rather than that of his habitual residence. But too wide a choice might simply allow a testator to evade the policies and protection of his "home" law, as where he chooses English law so as to avoid rules of compulsory heirship of another legal system which require him to leave a fixed percentage of his estate to his family members.

The Regulation will also need to formulate suitable rules of jurisdiction. Given the very wide range of issues that could arise under the Regulation, this will be no easy matter. It is likely, however, that the default rule will be to confer jurisdiction on the courts of the deceased's habitual residence at death. Equally difficult will be rules on the mutual recognition of foreign judgments. A Regulation of wide scope, which includes within its ambit judgments on the administration of the estate, the validity of property rights unknown in the state where recognition is sought, or provides for clawback of assets disposed of by inter vivos trust, may create acute issues of public policy for the state which is asked to recognise the judgment. There is also the question of how the United Kingdom would accommodate the acts of notaries, since it does not have a notarial tradition.

The Green Paper also reveals plans for a standard European Certificate of Inheritance, which would be issued by courts in Member States and contain a statement as to the assets of the estate and the entitlement of beneficiaries. But even if the courts of every Member State were willing and able to adapt their

domestic procedures so as to issue such a document, difficulties would remain. In view of the problems considered above in deciding what assets should be included in the testator's estate, it may be difficult for a court to accept a conclusive statement from another Member State's courts as to the assets of the estate. It remains to be seen whether a less ambitious approach, which recognises the certificate as having only evidential value, might be acceptable.

Finally, the Green Paper makes reference to a system of registration of wills. Such a development may be desirable, at least on an optional basis. It would, however, cause certain problems if an obligation to register a will were imposed. It is not clear how that system would be policed, or what would happen to a will that had not been registered. Nor is it clear what the register would contain, who could access it and when. Some testators may not wish the existence of their will to be disclosed prior to death.

The proposed Regulation is, in summary, a very complex initiative, not least because of the considerable disparity in the ways in which the domestic legal systems of Member States deal with the devolution of a person's estate upon death. Moreover, the true scope and potential effects of the Regulation are extremely significant. It remains to be seen whether that ambition will be realised; and whether, in attempting to achieve so much, the European institutions will be able to produce a Regulation that meets with general approval and which enables the United Kingdom, in particular, to participate in the initiative.

The March Guest Editorial will be by Professor Paul Beaumont; details to follow).