

CJEU confirms that an *actio pauliana* is a matter relating to a contract: Case C-722/17 *Reitbauer et al v Casamassima*

Written by Michiel Poesen

*Less than a year after its decision in Case C-337/17 Feniks (discussed here), the Court of Justice had another opportunity to consider the extent to which the Brussels Ia Regulation provides a head of special jurisdiction for an *actio pauliana*. In Case C-722/17 Reitbauer (decided last Wednesday but still not available in English), the Court confirmed its decision in Feniks, according to which such an action falls under Art 7(1) Brussels Ia if it is based on a contractual right. **Michiel Poesen**, PhD candidate at KU Leuven, has been so kind as to share his thoughts on the decision with us in the following post.*

Earlier this week, the Court of Justice of the European Union found that an *actio pauliana* is subject to jurisdiction in matters relating to a contract, contained in Article 7(1) Brussels Ia (Case C-722/17 *Reitbauer*).

In general terms, the *actio pauliana* is a remedy that allows a creditor to have an act declared ineffective, because said act was carried out by a debtor with the purpose of diminishing its assets by passing them on to a third party (see Opinion of AG Bobek, C-337/17 *Feniks*, [35]). This blogpost will briefly summarise the Court's ruling and its wider impact.

Facts

The facts leading to the ruling are quite complex. Mr Casamassima and Ms Isabel C., both resident in Rome, lived together at least until the spring of 2014. In 2010, they purchased a house in Villach, Austria. While Mr Casamassima apparently funded the transaction, Isabel C. was registered in the land register as the sole owner.

Ms Isabel C. - with the 'participation' of Mr Casamassima - entered into contracts

for extensive renovation works of the house with Reitbauer and others (the applicants in the preliminary reference proceedings, hereinafter referred to as 'Reitbauer'). Because the costs of the renovation far exceeded the original budget, payments to Reitbauer were suspended. From 2013 onwards, Reitbauer were therefore involved in judicial proceedings in Austria against Ms Isabel C. Early 2014, the first of a series of judgments was entered in favour of Reitbauer. Ms Isabel C. appealed against those judgments.

On 7 May 2014 before a court in Rome, Ms Isabel C. acknowledged Mr Casamassima's claim against her with respect to a loan agreement which was granted by the latter in order to finance the acquisition of the house in Villach. Ms Isabel C. undertook to pay this amount to the latter under a court settlement. In addition, she agreed to have a mortgage registered on the house in Villach in order to secure Mr Casamassima's claim.

On 13 June 2014 a (further) certificate of indebtedness and pledge certificate was drawn up in Vienna by a notary to guarantee the above settlement ('the pledge'). With this certificate, the pledge on the house in Villach was created on 18 June 2014.

The judgments in favour of Reitbauer did not become enforceable until after this date. The pledges on the house of Ms Isabel C. held by Reitbauer, obtained by way of legal enforcement proceedings, therefore ranked behind the pledge in favour of Ms Casamassima.

In order to realise the pledge, Mr Casamassima applied in February 2016 to the referring court (the District Court in Villach, Austria) for an order against Ms Isabel C., requiring a compulsory auction of the house in Villach. The house was auctioned off in the autumn of 2016. The order of entries in the land register shows that the proceeds would go more or less entirely to Mr Casamassima because of the pledge.

With a view to preventing this, Reitbauer brought an action for avoidance ('*Anfechtungsklage*') in June 2016 before the Regional Court in Klagenfurt, Austria, against Mr Casamassima and Ms Isabel C. The action was dismissed by that court due to a lack of international jurisdiction, given Casamassima's and Isabel C's domicile outside of Austria.

At the same time, Reitbauer filed an opposition before the district court of Villach,

Austria, in the course of the proceedings regarding distribution of the proceeds from the compulsory auction, and subsequently brought opposition proceedings against Mr Casamassima. In these opposition proceedings, Reitbauer sought a declaration **1)** that the decision regarding the distribution to Mr Casamassima of the proceeds of the action was not legally valid for reasons of compensation between Ms Isabel C.'s claims and those of Mr Casamassima, and **2)** that the pledge certificate was drawn up to frustrate Reitbauer's enforcement proceedings with regard to the house in Villach. Essentially, the second part of Reitbauer's action was based on the allegation that Ms Isabel C. had acted with fraudulent intent, therefore being a form of *actio pauliana*.

Decision

The Court of Justice had to consider first whether jurisdiction in proceedings that have as their object rights *in rem* in immovable property or tenancies of immovable property, provided in Article 24(1) Brussels Ia, was applicable. To trigger this ground of jurisdiction, Reitbauer and others alleged that their action was closely related to the house in Villach.

In reaching its conclusion, the Court reiterated that Article 24(1) Brussels Ia does not encompass all actions concerning rights *in rem* in immovable property, but only those which both come within the scope of the Regulation and are actions which seek to determine the extent, content, ownership or possession of immovable property or the existence of other rights *in rem* therein and to provide the holders of those rights with protection for the powers which attach to their interest (Case C-722 *Reitbauer*, [44]; see also Case C-417/15 *Schmidt*, [30])

This definition implies that an action was based on rights *in rem*, not on rights *in personam*. The part of the action alleging compensation between Casamassima's and Isabel C.'s claims does not satisfy this requirement, as it aims at contesting the existence of the Mr Casamassima's right *in personam* that was the cause of the enforcement proceedings.

The second part of the action, the *actio pauliana*, does not fit within *in rem* jurisdiction either. The Court found that such an action does not involve the assessment of facts or the application of rules and practices of the *locus rei sitae* in such a way as to justify conferring jurisdiction on a court of the State in which the property is situated (Case C-722 *Reitbauer*, [48]; see also C-115/88 *Reichert I*,

[12]).

Having come to this conclusion, the Court decided that jurisdiction over the actions brought by Reitbauer and others was not subject to Article 24(5) Brussels Ia either – which contains a special ground of jurisdiction “in proceedings concerned with the enforcement of judgments”. According to the Court, this bespoke ground of jurisdiction is to be understood as englobing proceedings that may arise from “recourse to force, constraint or distraint on movable or immovable property in order to ensure the effective implementation of judgments and authentic instruments” (Case C-722 *Reitbauer*, [52]; see also Case C-261/90 *Reichert II*, [28]) .

Reitbauer and others’ actions were clearly not related to the enforcement of the judgment but to the substantive rights underlying the pledge which was being enforced. For that reason, enforcement jurisdiction was to remain inapplicable.

Having reached the conclusion that no exclusive ground of jurisdiction could apply, the Court went on to consider Art 7(1) Brussels Ia – jurisdiction in matters relating to a contract. Following a short motivation (Case C-722 *Reitbauer*, [56]-[62]) the Court confirmed that the part of Reitbauer and others’ action amounting to an *actio pauliana* was a matter relating to a contract. As in the *Feniks* ruling, the reason cited is that the action aims at preserving Reitbauer and others’ contractual rights by setting aside the creditor’s allegedly fraudulent acts (Case C-722 *Reitbauer*, [58]-[59]; Case C-337/17 *Feniks*, [43]-[44]).

As a consequence, Art 7(1)(b) Brussels Ia allocates jurisdiction to the place of performance of the allegedly defrauded contract, being Villach since Reitbauer and others delivered their renovation services in that location (see Case C-337/17 *Feniks*, [46]).

The Purpose and Role of Art 7(1) Brussels Ia

As far as the exclusive grounds of jurisdiction in Art 24(1) and 24(5) Brussels Ia are concerned, the decision can hardly be considered surprising. Reitbauer and others tried to plead their actions as relating to a matter covered by exclusive jurisdiction, with the aim of suing the Italian domiciled defendants in Austria instead of Italy (which would be the outcome of the default rule of jurisdiction of Art 4(1) Brussels Ia). This attempt was bound to fail.

More interestingly, the Court confirmed that an *actio pauliana* can be a matter relating to a contract. This emerging line of case law is met with criticism. One of the points raised was that a defendant may be ignorant of the contract it allegedly helped to defraud. In such a situation, applying contract jurisdiction would trigger a forum that is unforeseeable for the defendant (an outcome that the Court rightly attempted to avoid in Case C-26/91 *Handte*, [19]). A response to this criticism would be not to apply contract jurisdiction to an *actio pauliana* altogether, as suggested earlier by AG Bobek (Opinion of AG Bobek, C-337/17 *Feniks*, [62]-[72]). There, the AG opined that an *actio pauliana* is too tenuously and too remotely linked to a contract to be a matter relating to a contract for the purpose of Art 7(1) Brussels Ia. Alternatively, AG Tanchev opined that the defendant's knowledge should be taken into account (Opinion in Case C-722/17):

[84] ... knowledge of a third party should act as a limiting factor: ... the third party needs to know that the legal act binds the defendant to the debtor and that that causes harm to the contractual rights of another creditor of the debtor (the applicants).

[92] ... the defendant's knowledge of the existence of the contract(s) at issue is important.

Instead of realigning the *Feniks* ruling with the principle of foreseeability, the decision in *Reitbauer* confirmed that an *actio pauliana* fits squarely within jurisdiction in matters relating to a contract, the driving factor seemingly being the hope to offer the claimant an additional forum that presumably has a close connection to the dispute (Case C-722 *Reitbauer*, [60]: Case C-337/17 *Feniks*, [44]-[45]).

Looking beyond the *actio pauliana*, the case law begs the question what other types of remedies - however remotely linked to a contract - could be subject to Art 7(1) Brussels Ia. An action for wrongful interference with contract, for example, regarded to be tortious in nature (e.g. *Tesam Distribution Ltd v Schuh Mode Team GmbH and Commerzbank AG* [1990] I.L.Pr. 149), would be a matter relating to a contract by the standard applied in *Feniks* and *Reitbauer*. It is doubtful whether such a broad construction of jurisdiction in matters relating to a contract complies with the limited role of Art 7(1) Brussels Ia within the Regulation (Recital (15) Brussels Ia).