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"The Legal Architecture of the Accordion Method: A Comparative Study on the Alteration of Shareholder Property Rights for Corporate Continuity"

Researchers:
Nourhan Al-Tamer
PhD Candidate, Islamic University of Lebanon
Trainee Lawyer at the Beirut Bar Association

Prof. Haïssam Fadlallah
Professor in Business Law
Faculty of Law, Filière Francophone de Droit, Lebanese University

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Abstract:

This study examines the "Accordion Method" as a composite legal and financial mechanism designed to restore fiscal equilibrium in distressed companies by reducing capital to absorb accumulated losses, followed by its immediate reconstitution through fresh recapitalization. The research traces the evolution of this technique, which flourished under French judicial precedent before its codification, contrasting it with the Lebanese context where it remains driven by exceptional judicial interpretation in the absence of explicit statutory regulation. The study demonstrates that the legitimacy of this mechanism transcends its procedural framework, resting fundamentally upon the fulfillment of the paramount corporate interest, a genuine rescue necessity, and ensuring that the majority does not subvert the process into a tool for abuse or shareholder squeeze-outs. It further highlights the pivotal role of the judiciary in scrutinizing economic necessity and ensuring financial transparency. The research concludes that the Accordion Method constitutes a highly effective restructuring tool for viable enterprises provided it is bound by stringent safeguards that balance economic continuity with shareholder protection, thereby underscoring the urgent need for a Lebanese legislative intervention aligned with modern corporate rescue policies.

Keywords: Accordion Method, Corporate Rescue, Corporate Restructuring, Distressed Companies, Paramount Corporate Interest.

ملخص البحث:

تتناول هذه الدراسة تقنيَّة "ضربة الأكورديون" بوصفها آلية قانونيَّة وماليَّة مركبة لإعادة التوازن المالي للشركات المتعثِّرة عبر تخفيض رأس مالها لامتصاص الخسائر ثم إعادة تكوينه فوراً برسملة جديدة؛ حيث تتبعت الدراسة نشأة التقنية في كنف الاجتهاد القضائي الفرنسي وصولاً إلى تقنينها، مقابل بقائها في لبنان رهينة الاجتهاد الاستثنائي في ظل غياب التنظيم التشريعي الصريح. وتُثبت الدراسة أن مشروعية هذه الآلية لا تكمن في جانبها الإجرائي فحسب، بل ترتكز جوهرياً على مدى تحقق المصلحة العليا للشركة، والضرورة الفعلية للإنقاذ، وضمان عدم انحراف الأكثرية بالتعسف أو الإقصاء؛ مبرزةً الدور المحوري للقضاء في بسط رقابته على شفافية البيانات المالية والضرورة الاقتصادية للعملية. وقد خلص البحث إلى أن "ضربة الأكورديون" تشكّل أداة إنقاذ بالغة الفعالية للشركات القابلة للحياة متى أُحيطت بضوابط دقيقة توازن بين استمرارية المشروع الاقتصادي وحماية المراكز القانونية للمساهمين، مما يستدعي تدخلاً تشريعياً لبنانياً عاجلاً يواكب السياسات الحديثة لإعادة الهيكلة.

الكلمات المفتاحية: إعادة هيكلة الشركات، إنقاذ الشركات، الشركات المتعثِّرة، ضربة الأكورديون، المصلحة العليا للشركة.

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Introduction:

The corporate landscape is increasingly witnessing recurrent and sudden financial crises that jeopardize the structural stability of companies and the continuity of their operations (Berro, 2013, p. 112). This reality has exposed the limitations of traditional mechanisms in confronting acute financial distress, thereby necessitating the exploration of more flexible and effective legal and financial instruments to prevent companies from being driven toward liquidation. Amidst this paradigm shift, the "Accordion Method" (also known as the Coup d'Accordéon technique) has emerged as one of the most prominent instruments for restoring financial equilibrium (Sylvestre-Touvin, 2002, p. 45). This mechanism functions as a financial and accounting tool designed to fully absorb accumulated losses and reconstitute the corporate capital depleted by insolvency, while concurrently creating a cash reserve aimed at securing future operating expenses and mitigating imminent financial risks (Le Cannu, 2005, p. 320).

The French Court of Cassation consolidated this technique in the landmark USINOR case, prioritizing the requirements of the overarching public economic interest over individual interests; the court ruled that reducing a company's capital to zero, followed by an immediate recapitalization through the injection of new funds, constitutes a legally permissible procedure (Cohen, 2003, p. 410). Adopting a similar approach, the Court of First Instance in Mount Lebanon analyzed this process from both its financial and procedural dimensions, affirming its legitimacy and alignment with established legal principles, provided that the operation genuinely aims to ensure corporate continuity and achieve an economic and social benefit that transcends the self-interests of a specific faction of shareholders.

Although this technique may, at first glance, appear to be a simple financing mechanism that is difficult to execute practically due to the necessity of securing new financial resources, its true significance - inspired by the accordion musical instrument - reflects a philosophy rooted in restructuring the company's financial balance and addressing distress dynamics within an internal framework that relies on the enterprise's self-capabilities. This allows for the development of a flexible technical mechanism capable of keeping pace with financial market volatility and adapting to the flexibility of Lebanese legal rules and judicial trends (El-Kik, 2020).

Consequently, traditional remedies centered on the forced liquidation of a company or the compulsory termination of its activities are no longer sufficient to address the structural crises affecting corporate capital, particularly in light of contemporary economic transformations and their concomitant reduction in liquidity and erosion of financial guarantees (Al-Abdallah, 2011, p. 285). Hence, modern legislations have gravitated toward adopting flexible legal instruments that restructure the financial architecture of the company to guarantee its continued operations and restore its competitiveness, without compromising its independent legal personality or dragging it into terminal liquidation (Hatoum, 2007, p. 70). The Accordion Method falls squarely within this framework, operating as a legal mechanism that merges capital reduction and capital reconstitution into an indivisible, interconnected process aimed at restoring the equilibrium between assets and liabilities and rectifying the imbalance that has afflicted the company's financial estate.

This research **aims** to examine the legal framework, characteristics, and implementation mechanisms of the Accordion Method, analyzing its foundational basis in French law and the feasibility of its adoption within the Lebanese legal system, while critically addressing the complexities of corporate conflicts of interest, shareholder equality, and available avenues of judicial protection. The **significance** of this study lies in its investigation of a highly precise and debated legal technique, balancing minority shareholder protection with the alteration of their interests to safeguard the paramount corporate interest. This importance is further heightened by highlighting the pivotal role played by both the French and Lebanese judiciaries in defining these legal parameters, establishing judicial precedent as the primary benchmark for determining the scope of its legitimacy in the absence of explicit statutory regulation in Lebanon.

In light of the foregoing, the primary **research problem** revolves around the following question: To what extent does the Accordion Method constitute a legitimate and effective legal means to restore the financial equilibrium of distressed companies without compromising the legal guarantees protecting shareholders and creditors? To address these issues, this study adopts both **analytical and comparative methodologies** by examining relevant statutory texts, judicial precedents,

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and legal doctrines. A comparative analysis is drawn between the positions of Lebanese and French law to identify areas of convergence and divergence, and to explore the capacity of developing the Lebanese legal system in this field by drawing upon the French experience.

With regards to the **research hypotheses**, this study is based on the premise that the Accordion Method constitutes a legitimate and effective restructuring mechanism capable of restoring the financial equilibrium of distressed companies without necessarily undermining shareholder protection. Accordingly, the study proceeds from the following **assumptions**:

- The legitimacy of the Accordion Method depends primarily on the existence of a genuine rescue necessity and the paramount corporate interest rather than on procedural compliance alone.
- The absence of specific legislative regulation in Lebanon does not preclude the application of this technique through general corporate law principles and judicial interpretation.
- Effective judicial oversight is essential to prevent abuses of majority power and to preserve the rights of minority shareholders and creditors.

Additionally, the **scope of this study** shows that it's confined to the legal dimensions of the Accordion Method within the framework of joint-stock companies. It focuses on the French and Lebanese legal systems and examines the relevant statutory provisions, judicial decisions, and doctrinal writings. Economic and accounting aspects are addressed only insofar as they are necessary to understand the legal implications of the technique.

Moreover, some **definitions of key terms**, are to be mentioned as follow:

- Accordion Method (Coup d'Accordéon): A composite legal and financial operation consisting of a reduction of capital to absorb accumulated losses, followed immediately by a recapitalization through a new capital increase, with the objective of restoring the company's financial equilibrium and ensuring its continuity.
- Distressed Company: A company experiencing severe financial difficulties or substantial losses that threaten its continuity while retaining sufficient economic viability to justify restructuring rather than liquidation.
- Paramount Corporate Interest (Intérêt Social): The interest inherent to the legal entity itself, aimed at ensuring the continuity and development of the enterprise independently from the individual interests of shareholders.
- Abuse of Majority Power (Abus de Majorité): The exercise of voting power by the majority with the purpose of advancing its own interests at the expense of the company or minority shareholders, thereby departing from the corporate interest.

On the other hand, and with regards to the **theoretical framework and previous studies**, this research is grounded in the contemporary conception of corporate law, which views corporate capital not merely as a static accounting figure, but as a functional instrument serving the continuity and survival of the economic enterprise. Within this framework, the Accordion Method emerged as a modern restructuring technique designed to restore financial equilibrium while reconciling rescue imperatives with the protection of shareholder rights. Among the principal studies addressing this subject, the doctoral thesis of Stéphane Sylvestre-Touvin, Le coup d'accordéon ou les vicissitudes du capital (2002), examined the legal foundations and indivisible nature of the technique. Likewise, Paul Le Cannu, in his article "Coup d'accordéon: refrain connu" (RTD Com., 2005), analyzed its practical and legal implications within French corporate law. In Lebanon, Safaa Maghribil addressed the mechanism within the broader framework of Lebanese company law and highlighted the role of judicial practice in accommodating it despite the absence of explicit statutory provisions.

Unlike previous studies, the present research adopts a comparative perspective and focuses on the relationship between corporate rescue requirements and the legal protection afforded to shareholders and creditors, with particular emphasis on judicial oversight and conflicts of interest arising from the implementation of the Accordion Method.

Based on the premises outlined above, this research is divided into **two main sections**: The first section is dedicated to examining the legal framework of the Accordion Method by outlining the legal and procedural trends associated with it, in addition to the legal understanding established by judicial applications and jurisprudence in France and Lebanon. The second section addresses the conflicts of interest resulting from the application of this technique, focusing on the legal caveats associated with its usage and the judicial protections prescribed for parties adversely affected by its outcomes.

Section I: The Legal Framework of the Accordion Method

The "Accordion Method" stands out as one of the most prominent contemporary legal mechanisms for addressing capital imbalances in distressed companies. It operates by reducing capital to absorb accumulated losses, followed immediately by capital reconstitution through a new increase, thereby enabling the company to restore its financial equilibrium and ensure the continuity of its operations (Saintourens, 2011, p. 145). This technique derives its significance from being an extraordinary intervention that alters the fundamental structure of corporate capital, which serves as the primary guarantee for creditors (Barbièri, 2015, p. 88). Consequently, it must be subjected to strict legal controls to prevent any abuse of power and to ensure a fair balance (Sadek, 2010, p. 215) between financial rescue imperatives and the protection of shareholder and creditor rights (Merle, 2024, p. 566). Furthermore, this method raises intricate legal complexities regarding compliance with the principle of equal treatment of shareholders, and the extent to which their rights may be altered for the sake of safeguarding the corporate existence. This renders it one of the most precise and vital financial restructuring tools in modern law. Therefore, it is necessary to examine the legal and procedural trends governing the application of the Accordion Method (Sub-Section I) before proceeding to delineate its precise legal definition, nature, and limitations (Sub-Section II).

Sub-Section I: Legal and Procedural Trends of the Accordion Method

Practical experience in corporate governance has demonstrated that traditional legally sanctioned mechanisms for corporate financing - such as borrowing, issuing convertible bonds, increasing capital by issuing new shares, or capitalizing reserves - are no longer sufficient on their own to remedy acute financial distress, particularly when accumulated losses deplete the company's equity and erode its capital structure. Although legitimate, these traditional methods remain constrained by complex legal and accounting procedures and may necessitate fundamental amendments to the company's Articles of Association, which has driven legal scholars and judiciaries to seek more flexible mechanisms capable of restoring financial balance to distressed companies without driving them into liquidation (Lebanese Commercial Code, arts. 206, 208; French Commercial Code, art. L.224-2).

In this context, the "Accordion Method" has emerged as a premier contemporary financial restructuring tool, particularly after being consolidated by the French judiciary before its influence extended to Lebanese jurisprudence (Maghribil, 2021, pp. 296–298). The designation of this technique is inspired by the accordion musical instrument, reflecting its operational nature based on two inseparable and successive movements: the first entails a reduction of capital, which may even drop to zero, while the second involves an immediate capital increase through the injection of new funds (Aidan, 2025). Consequently, this mechanism has been described as an extraordinary remedy deployed by corporations to purge their balance sheets of accumulated losses and rebuild their financial base to sustain operations and regain economic viability (Court of First Instance of Mount Lebanon, 2011). Therefore, the essence of this technique transcends a mere accounting adjustment of capital; it involves re-engineering the company’s capital architecture to guarantee the reconstitution of its equity and the restoration of its solvency.

More precisely, the Accordion Method is defined as a composite legal and financial operation consisting of a corporate capital reduction necessitated by accumulated losses - where the reduction may reach zero - contingent upon an immediate, simultaneous capital increase via new subscriptions or contributions. This leads to erasing the ledger effects of the losses and reconstituting the company’s equity (Corbet-Picard & Gharbi, 2023a). French law has implicitly recognized this mechanism through the statutory provisions governing capital alterations set forth in Articles L.225-204 et seq. of the French Commercial Code, as well as Article L.225-248, which mandates companies to examine their financial position when losses exceed half of the corporate capital.

In Lebanon, despite the absence of a specific statutory provision explicitly regulating this technique, the Lebanese Commercial Code permits capital reduction and increase within the general provisions governing joint-stock companies (Sociétés Anonymes), particularly those related to the powers of the Extraordinary General Assembly and capital modifications. This statutory backdrop has enabled the Lebanese judiciary to recognize its legitimacy based on general legal principles (El-Kik, 2017).

This technique is characterized by constituting a single, indivisible operation from both legal and economic standpoints, meaning that the decision to reduce capital cannot be detached from the decision to increase it, as the legitimacy of the former remains strictly contingent upon the actual execution of the latter. For this reason, this mechanism is mostly adopted when a company remains economically viable despite its financial distress - implying that the flaw lies in its capital structure rather than the viability of its business model. Hence, the Accordion Method aims to cleanse the balance sheet of accumulated losses and recapitalize the company by introducing new funds or new investors, thereby reconstructing its financial solvency and restoring market confidence (Corbet-Picard & Gharbi, 2023b).

It is worth noting within this framework that this operation does not aim to discharge the company’s debts or liquidate its liabilities toward third parties; rather, it aims to eliminate the accounting losses that eroded the capital. This distinction has been articulated by French legal doctrine through the concept: Épuration des pertes sociales et non pas du passif social (cleansing corporate losses, not corporate liabilities). Consequently, this technique serves as a means to rebuild the company's equity, rather than an instrument to release it from its external debts (Maghribil, 2021, pp. 298–299).

On a legal level, resorting to this technique requires a set of essential safeguards and procedures due to the profound modifications it inflicts upon the financial and legal structure of the company. Accordingly, the authority to approve this operation is vested exclusively in the Extraordinary General Assembly, pursuant to Article 193 of the Lebanese Commercial Code, which defines the quorum and majority rules required to amend the Articles of Association and to increase or reduce capital. To convene the first meeting, the presence of shareholders representing two-thirds of the corporate capital is required, with the quorum reduced for subsequent meetings in accordance with statutory procedures. Furthermore, the resolution is valid only if it obtains a two-thirds majority of the shares represented at the assembly (Maghribil, 2021, p. 366).

In addition, the integrity of this operation requires the preparation of precise financial reports displaying the true financial status of the company and the volume of accumulated losses. These must be accompanied by reports from the auditors (commissaires aux comptes), in alignment with the rules governing auditing in the Lebanese Commercial Code, particularly Article 175, which establishes the role of auditors in verifying the accuracy of financial statements (Lebanese Commercial Code, art. 185). Lebanese jurisprudence has also been influenced by the French statutory requirements set forth in Article L.225-235 of the French Commercial Code regarding auditor oversight over capital alteration operations.

Moreover, respecting shareholder rights, particularly minority rights, is a fundamental prerequisite for the legitimacy of this technique (Cour de cassation, 2019). The right to vote within the General Assembly is an inherent right attached to shareholder status, and the preferential subscription right (droit préférentiel de souscription) for new shares constitutes a vital safeguard preventing the arbitrary exclusion of minority shareholders from the capital structure. This principle is strictly enshrined in French law under the provisions governing shareholder rights during capital increases, particularly Articles L.225-132 et seq. of the French Commercial Code.

Procedurally, the Accordion Method is executed through interconnected phases. It begins with diagnosing the true financial condition of the company by preparing accurate balance sheets and financial statements that reflect the magnitude of losses and their impact on equity. Subsequently, the Extraordinary General Assembly is convened to deliberate on both the capital reduction and capital increase within a single, integrated process ("Coup d'accordéon", 2026). This is followed by the resolution to reduce capital to absorb accumulated losses, either by reducing the nominal value of the shares or canceling them entirely if the losses dictate a reduction of capital to zero (Comance Communication, 2023). Thereafter comes the pivotal phase of reconstructing the capital through a new increase - a step that forms the core legitimacy of the entire operation (Cour de cassation, 2023). Since the landmark USINOR case, the French judiciary has consistently held that reducing capital to zero is illegitimate unless it is coupled with an actual and certain increase that restores the capital within statutory limits. Finally, the subscription door for new shares is opened to existing shareholders or new investors, allowing the injection of fresh liquidity into the company and the restoration of its financial solvency ("Opération sociétaire", 2020), before certifying the subscription results, amending the Articles of Association, and completing the publication and registration formalities in the Commercial Registry in accordance with the prescribed procedures under both Lebanese and French law.

It follows that the Accordion Method is not merely a transient financial technique; rather, it constitutes an integrated legal mechanism for restructuring the capital architecture of distressed companies. It merges balance sheet cleansing and recapitalization into a single operation aimed at protecting corporate continuity and preventing the collapse of the economic enterprise. While this technique has demonstrated clear flexibility on a practical level, defining its legal nature and its underlying foundation remains a pivotal question for understanding its position within modern restructuring systems and analyzing the premises that established its legitimacy in doctrine and jurisprudence.

Sub-Section II: The Legal Conception of the Accordion Method

The Accordion Method was not initially established in French law through an explicit statutory text; rather, it developed incrementally through judicial precedents confronting companies whose equity had been depleted by losses, despite retaining economic potential that justified their survival (Cour de cassation, 2017). The USINOR case constituted the most prominent turning point in this trajectory. In its landmark judgment rendered on May 17, 1994, the French Court of Cassation affirmed the legitimacy of reducing corporate capital to zero, provided that it is immediately coupled with its reconstitution via a new increase aimed at rescuing the company and rebuilding its equity. The Court proceeded from the premise that the reduction and the increase are interconnected components of a single legal operation, and neither should be viewed independently of the other (Cour de cassation, 1994).

The significance of this approach lies in shifting the concept of corporate capital from a static figure in the Articles of Association to a functional concept linked to its actual capacity to guarantee the continuity of the economic enterprise. Thus, once existing shares lose their economic value due to accumulated losses, their cancellation within a genuine rescue framework is no longer deemed an independent infringement upon shareholder rights; rather, it is viewed as a natural consequence of the depletion of corporate equity. From this perspective, the French judiciary prioritized the paramount corporate interest over the individual interests of certain shareholders, provided that the underlying objective is to protect and rescue the company, rather than arbitrarily redistributing corporate control.

This judicial trend was further consolidated by the AMY decision, in which the French judiciary upheld the validity of the Accordion Method even when the preferential subscription rights (droit préférentiel de souscription) of existing shareholders were canceled, provided it is established that the company faces a critical financial predicament necessitating the injection of new funds to guarantee its survival (Cour de cassation, 2002). The court reasoned that existing shareholders would have faced the exact same outcome had the company collapsed, thereby rendering the protection of the economic enterprise a sufficient justification for altering certain individual positions, whenever backed by serious necessity and a prevailing corporate interest (Cour d'appel de Besançon, 1998).

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Nevertheless, the French judiciary did not leave this technique immune to oversight; instead, it subsequently subjected it to strict controls to prevent its utilization as a tool for squeezing out minority shareholders or arbitrarily restructuring corporate control. This is explicitly demonstrated in the judgment rendered by the Commercial Chamber of the French Court of Cassation on November 26, 2025, which reaffirmed that the Accordion Method, even if executed within a restructuring or rescue plan, remains subject to judicial review whenever it entails an unlawful infringement upon minority rights or constitutes an abuse of majority power (abus de majorité). Consequently, French jurisprudence transitioned from merely affirming the legitimacy of the technique to defining the boundaries of its implementation and subjecting it to the standard of proportionality between financial rescue imperatives and legal protection guarantees (Cour de cassation, 2025).

French legislation absorbed this evolution through general statutory provisions governing capital reduction and increase, notably Articles L.225-204 and L.225-205 of the French Commercial Code, alongside Article L.224-2 concerning the mandatory regularization of a company's status when its capital falls below the statutory minimum threshold, and Article L.225-248 regarding the loss of more than half of the corporate capital in joint-stock companies (Merle, 2024). Although the French legislator did not explicitly adopt the nomenclature "Coup d'Accordéon," these statutory texts provided the legal basis permitting capital reduction due to losses followed by its reconstitution within defined parameters. In Lebanon, despite the absence of a specific legislative framework for this technique, the Lebanese judiciary treated it as capable of being accommodated within the general rules governing joint-stock companies, particularly the provisions related to capital alteration (French Commercial Code, art. L.224-2). The decision of the Court of First Instance in Mount Lebanon, rendered on March 16, 2011, in the Al-Mashreq Hospital Company case, constituted a foundational milestone in this arena. The court examined a resolution adopted by the Extraordinary General Assembly to reduce the company's capital to zero and subsequently increase it to 750 million Lebanese pounds through the issuance of new shares, classifying this measure squarely under the Accordion Method technique (Court of First Instance of Mount Lebanon, 2011).

The court recognized, in principle, the feasibility of adopting this technique in Lebanon; however, it emphasized its extraordinary nature and the necessity of its actual alignment with the paramount corporate interest and the objective of rescue. In the case under review, the court ultimately annulled the resolution of the Extraordinary General Assembly after finding that resorting to this technique was not necessary for the company's survival. This confirms that its legitimacy does not stem from mere compliance with its technical form, but rather from the actual fulfillment of its rescue purpose. In its approach, the court relied on several Lebanese statutory texts, notably Article 83 of the Commercial Code concerning the minimum capital required for joint-stock companies (Lebanese Commercial Code, art. 83), and Article 208, which conditions capital reduction upon respecting third-party rights, mandates publication in the Official Gazette, and grants creditors a specific period to file an opposition (Lebanese Commercial Code, art. 208). Furthermore, the court drew upon the general rules set forth in the Law of Obligations and Contracts pertaining to the corporate contract (Lebanese Law of Obligations and Contracts, art. 844), particularly the principle of shareholder participation in profits and losses as an essential component of the shareholder relationship (Civil Court of Cassation, 1991).

It can be inferred from the Lebanese position that the Accordion Method can find a footing within the Lebanese legal system despite the absence of explicit statutory regulation, provided it is treated as an extraordinary mechanism subject to judicial oversight and grounded in serious financial necessity, while fully respecting shareholder and creditor rights. It is not to be viewed as a means to exclude existing shareholders or redistribute corporate control, but rather as a remedial tool that is unacceptable unless it is vital to rescue a company that remains economically viable (Lebanese Commercial Code, art. 192).

Accordingly, it is evident that the legal conception of the Accordion Method is predicated on achieving a delicate balance between financial rescue imperatives and legal protection requirements. While the French experience consolidated this technique and defined its scope, the Lebanese experience recognized it while subjecting it to heightened judicial scrutiny to ensure it does not deviate from its corrective purpose. This justifies transitioning to the analysis of conflicts of interest, the legal caveats associated with its application, and the judicial protection prescribed for aggrieved parties.

Section II: Conflicts of Interest in Light of Implementing the Accordion Method

The Accordion Method highlights a delicate legal issue characterized by conflicts of interest within the corporation. The reconstitution of capital through its reduction followed by an immediate increase may lead to a redistribution of rights and shifts in corporate control that affect the interests of certain shareholders or creditors, particularly when deployed to introduce new shareholders or squeeze out existing ones (Kassem, 2020, p. 215). Consequently, this mechanism raises fundamental queries regarding its compatibility with the principles of equality and fairness within the corporation. This necessitates subjecting it to strict legal and judicial oversight to prevent it from deviating from its original purpose as a remedial tool to rescue the company and restore its financial equilibrium. Accordingly, it is necessary to delve into these issues by analyzing the legal caveats associated with using the Accordion Method (Sub-Section I), as a prelude to outlining the scope of judicial protection prescribed for parties aggrieved by its application (Sub-Section II).

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Sub-Section I: Legal Caveats of Utilizing the Accordion Method

While the Accordion Method is recognized as an instrument for restructuring and rescuing distressed companies, its application triggers intricate legal complexities that transcend mere capital adjustment as an accounting ledger figure. It directly impacts the proprietary and governance rights of shareholders and realigns corporate control, and its effect may extend to terminating the very existence of certain partners within the capital structure. Therefore, evaluating its legitimacy does not rest solely on its effectiveness in restoring financial equilibrium; it extends to include its alignment with the paramount corporate interest, respect for shareholder rights, and compliance with the principle of equal treatment among shareholders. In its legal structure, a corporation is predicated on the element of affectio societatis (the intent to associate) as an essential pillar of the corporate contract. This dictates mutual cooperation among partners, the sharing of corporate outcomes, and participation in management in accordance with the law and the Articles of Association. From this foundational pillar emerges the concept of the collective interest of the company, which does not necessarily coincide with the individual interests of the shareholders, nor can it be reduced to the mere sum thereof. Rather, it reflects the interest of an independent legal entity endowed with its own corporate estate (patrimoine), name, headquarters, operations, and distinct legal relationships (Hatoum, 2007, p. 10).

Legal doctrine and jurisprudence in various systems, particularly the French, have consistently treated this interest as a guiding benchmark for the actions of management and general meetings, despite the absence of an all-encompassing statutory definition. Article 1848 of the French Civil Code consolidated this approach by granting the manager the authority to perform management acts dictated by the interest of the company. Similarly, Article L.221-4 of the French Commercial Code supported the same principle by enabling the manager to exercise management acts within the scope of this interest in the absence of a precise delineation of powers in the Articles of Association. It can thus be inferred that the corporate interest serves as a metric to regulate the legality of resolutions and guide the behavior of administrative organs (Sousi, 1974, p. 381).

In the Lebanese context, the concept of the corporate interest has emerged indirectly through various scattered statutory provisions without being comprehensively defined. Article 865 of the Law of Obligations and Contracts prohibits a partner from engaging in competitive activities for their own account or for the account of a third party if such acts harm the interests of the company. Furthermore, Article 915 conditions the legitimacy of withdrawing from a company of indefinite duration upon the absence of intent to prejudice the company's interest, particularly when the circumstances dictate postponing dissolution. Under the Commercial Code, Article 65 restricts the right of a partner to dissolve a general partnership (Société en Nom Collectif) by requiring that it does not harm the legitimate interests of the company. Moreover, Article 19 of Legislative Decree No. 35 dated 5/1/1968 concerning Limited Liability Companies (Sociétés à Responsabilité Limitée) affirms the right of partners to file a derivative action against managers on behalf of the company, reflecting the prioritization of safeguarding the legal entity over individual interests.

Consequently, implementing the Accordion Method necessitates achieving a delicate balance between financial rescue imperatives and the protection of shareholder positions. This technique may lead to canceling existing shares or fundamentally diminishing their value, concurrently opening the door for the entry of new investors capable of financing the recapitalization (Ripert et al., 2001, p. 257). Here, a clear conflict arises between the right of shareholders to maintain their positions within the corporation, and the interest of the entity itself to survive and overcome its financial distress (Tricot, 1994, p. 617). If a company reaches a stage where its capital is eroded by losses, a formalistic adherence to historical rights may obstruct the rescue operation, whereas prioritizing the corporate interest may justify restructuring the capital even if it alters certain individual rights (El-Jisr, 1983, p. 262).

The French judiciary has firmly established this trend in several pivotal rulings. In the USINOR judgment of 1994, it affirmed the legitimacy of resorting to this technique whenever necessary to guarantee corporate continuity, while initially preserving the preferential subscription right (droit préférentiel de souscription) for existing shareholders (Cour de cassation, 1994). It subsequently expanded this doctrine in the AMY decision of 2002 to permit the cancellation of this right if the interest of the rescue operation so required (Cour de cassation, 2002). Furthermore, the French Court of Cassation reinforced this stance in its judgment of January 11, 2017, in the Clinique de la Ciotat case, ruling that the legitimacy of the procedure presupposes the existence of genuine financial difficulties and that the objective must be to enable the company to surmount them and restore its viability (Paillusseau, 1984). In Lebanese jurisprudence, the same trend has emerged by treating the corporate interest as a standard for evaluating the resolutions of general assemblies. Certain courts, including the Commercial Chamber of the Court of First Instance of El-Metn, have held that an abuse of majority power (abus de majorité) does not materialize unless it is proven that the resolutions were adopted to achieve personal interests that do not serve the interest of the company (Court of First Instance of Mount Lebanon - El-Metn, 1998). The Court of Cassation also recognized the feasibility of deferring dividend distributions if circumstances dictate, provided there is no abuse of power or harm inflicted upon the corporate interest (Civil Court of Cassation, 2001).

In a related context, the Court of First Instance of Mount Lebanon in the Al-Mashreq Hospital case (Court of First Instance of Mount Lebanon, 2011) held that the Accordion Method is unacceptable unless dictated by financial necessities and constituting the sole means to rescue the company. However, this trend does not grant unfettered authority to the majority, as the principle of equal treatment among shareholders remains a fundamental rule in capital companies. This principle mandates treating identical legal positions in an equivalent manner, particularly regarding voting, subscription, and opportunities to participate in the corporate capital (Bertrel, 1996, p. 626).

The importance of this principle is heightened during recapitalization, where the operation may practically reinforce the influence of shareholders capable of financing at the expense of minority shareholders who may face dilution or exit. This necessitates ensuring transparency, equal opportunity, and preventing the utilization of the method as a tool to unlawfully redistribute control (Hatoum, 2007, p. 112).

Accordingly, the paramount corporate interest emerges as a flexible standard to guide critical decisions within the entity, especially when its continuity conflicts with shareholder rights. It represents neither the interest of the majority nor that of the minority; rather, it reflects the interest of the economic venture as an independent legal entity (Goffaux-Callebaut, 2004, p. 36). However, this flexibility requires precise judicial review to prevent it from turning into a tool to legitimize measures that may involve abuse or the unjustified exclusion of certain shareholders (Joreige, 2001, p. 130).

Consequently, the legitimacy of the Accordion Method remains contingent upon the existence of genuine distress, an urgent economic necessity, transparency in financial data, respect for subscription rights or a justification for their exclusion, and a guarantee of compliance with the principle of equality. Ultimately, this technique remains a legitimate remedial measure when utilized to rescue a viable company, but it becomes a subject of legal suspicion when exploited to restructure internal leverage, exclude specific classes of shareholders, or compel them alone to bear the consequences of the crisis. Hence, the ultimate safeguard lies in effective judicial review, which extends to annulling unlawful resolutions, awarding damages, or holding responsible actors criminally liable upon proof of fraud or abuse of power. This opens the floor to examine the judicial protection mechanisms prescribed for parties aggrieved by this type of operation.

Sub-Section II: Judicial Protection Prescribed for Aggrieved Parties

The analysis of the legal complexities triggered by the "Accordion Method" remains incomplete without addressing the framework of judicial protection available to aggrieved parties - whether an erstwhile shareholder whose shares were canceled, a shareholder whose equity stake was substantially diluted, or a creditor or stakeholder who suffered prejudice from the execution mechanism of the operation. Despite being bound to a legitimate rescue objective, this technique may deviate from its purpose if exploited to squeeze out minority shareholders, mislead investors, or restructure internal leverage in a manner that conflicts with transparency, proper exercise of authority, and the principle of equal treatment.

On a civil level, an aggrieved party is entitled, in principle, to petition the judiciary to annul the resolution or seek compensation for damages, provided it is established that the operation was tainted by fraud, statutory or regulatory violations, or an abuse of voting rights by the majority. In this context, the Lebanese Commercial Code plays a pivotal role, particularly Article 166, which establishes the civil liability of board members toward third parties for fraudulent acts and any violation of the law or the Articles of Association, thereby reinforcing the legal basis for compensation claims. This protection is complemented by Article 168, which permits filing a liability action against management organs pursuant to the provisions of Article 167, especially upon the occurrence of a managerial fault (faute de gestion) that inflicts damage upon the company or the shareholders.

It can be inferred from this legislative framework that whenever the requirements of personal and direct prejudice are met, a shareholder has the right to initiate an individual action against board members if the claim is grounded in fraud or a statutory or regulatory violation directly affecting their individual position. Furthermore, should the company refrain from taking the necessary legal measures, the shareholder may exercise a derivative action (action sociale ut singuli) on its behalf and for its benefit. However, the procedural dilemma intensifies after the implementation of the Accordion Method; reducing capital to zero and canceling existing shares may extinguish the status of the shareholder, thereby raising a fundamental problem regarding the availability of standing (qualité) and legal interest (intérêt) to pursue the lawsuit after losing their proprietary interest in the corporation.

The French judiciary has adopted a stringent approach in this arena. The Court of Cassation ruled that an individual action brought by a shareholder against the chairman of the board of directors seeking compensation for losses resulting from the execution of the Accordion Method was inadmissible; the court reasoned that the loss of shareholder status deprives the plaintiff of the necessary standing and legal interest, provided that the alleged damage is intrinsically linked to rights derived from that status. It follows from this trend that the admissibility of a civil claim is not automatic, but is rather contingent upon the existence of an ongoing legal status or a distinct personal damage that does not merge into the collective damage sustained by the corporation (Cour d'appel de Paris, 1935). In the Lebanese context, this approach aligns with the established jurisprudence of the Court of Cassation when interpreting Articles 455 and 456 of the Commercial Code, where it held that the registration of transferring a registered share (action nominative) in the company’s ledgers is what creates the direct rights of a shareholder, including the right to litigate. Although this precedent did not arise specifically within the context of the Accordion Method, it underscores that shareholder status is not a mere formality but a direct foundation for exercising judicial rights associated with corporate shares (Lebanese Court of Cassation, 2017). Consequently, the extinction of this status leads, as a general rule, to the transfer of the right of action to the new shareholder, unless the former shareholder demonstrates a distinct personal damage that arose prior to losing their status or as a direct result of fraud targeting their specific position.

Nevertheless, civil protection remains limited in terms of its preventive character, as it presupposes that the damage has already materialized. It is insufficient to merely allege future risks, negative indicators, or the apprehension of a deteriorating financial position; rather, a certain and actual damage resulting from a fault, fraud, statutory violation, or an abuse of authority must be proven. Hence, the role of the civil court is triggered subsequent to the materialization of the damage, either by annulling the resolution when the grounds for nullity are met, or by awarding compensation when it is impossible to restore the status quo ante (restitutio in integrum).

On a criminal level, protection assumes a more sensitive dimension, as it pertains to acts that transcend managerial faults or economic failure into the realm of criminalization. The Lebanese legislator established a fundamental framework for this protection through Article 97 of the Commercial Code, which refers to the provisions of fraud (escroquerie) in the Penal Code, specifically Articles 655 and 656. Article 655 penalizes the deployment of fraudulent maneuvers designed to induce a third party to deliver funds, deeds, benefits, or assets, and subsequently misappropriating them. These maneuvers include creating the illusion of fictitious projects, making false promises, generating unfounded apprehensions, utilizing fabricated facts or deceptive titles, or abusing authority to secure an illicit benefit. Article 656 imposes harsher penalties when the offense is committed by individuals who solicit funds from the public for the purpose of issuing shares, bonds, or financial instruments, or by persons authorized to sign on behalf of corporations or legal entities. The significance of these texts is highlighted in the context of the Accordion Method when the recapitalization process is utilized as a facade to disseminate misleading information, inflate losses, conceal the true financial position, or induce shareholders to accept the capital reduction or subscribe to new shares based on inaccurate data.

Criminal liability within this framework is contingent upon the confluence of fraudulent maneuvers, a damaging outcome, a causal link, and the criminal intent (mens rea) comprising both general and specific intent. Its materialization can be envisioned, for instance, when presenting financial statements that do not reflect reality, overvaluing assets, manipulating share prices, falsely announcing the entry of new investors, or utilizing the restructuring plan to deceive shareholders into believing that exiting the company is inevitable despite the absence of an actual necessity.

Furthermore, this issue triggers the question of the criminal liability of legal entities. Lebanese doctrine and jurisprudence have consolidated the feasibility of holding a corporation criminally liable whenever the offense is committed in its name, utilizing its means, or for its benefit, based on the independence of its legal will. The Court of Cassation affirmed that this liability is personal to the legal entity itself, and both the natural person and the corporation can be prosecuted in tandem. In the context of the Accordion Method, this liability may arise if the company’s organs, statements, or corporate resolutions are utilized to execute fraudulent operations or squeeze out shareholders to achieve an illicit gain.

Nevertheless, the Lebanese legislative framework remains incomplete due to the absence of a specific statutory provision explicitly criminalizing the misuse of corporate assets (abus de biens sociaux) or the misuse of corporate powers (abus de pouvoirs), unlike the French system, which dedicated precise statutory provisions to penalize such conduct. In Lebanon, the remedy remains mostly confined within the general rules of fraud or breach of trust (abus de confiance), even though certain forms of recapitalization may transcend individual disputes to threaten corporate interest, shareholder equity, and overall economic stability. In conclusion, judicial protection against the abuses of the Accordion Method is divided into two integrated paths: a civil path aimed at annulling resolutions or awarding damages upon proof of fraud, violation, or abuse of power; and a criminal path that intervenes when the operation turns into a mechanism for fraud, misrepresentation, or abuse of authority. However, the efficacy of this protection remains dependent upon the judiciary's capacity to distinguish between the legitimate risks of rescue operations and the deviations that turn this technique into a tool for redistributing corporate control or squeezing out shareholders under the guise of restructuring.

In light of the growing integration of digital technologies into corporate governance, the effectiveness and transparency of the Accordion Method could be significantly enhanced through the use of artificial intelligence and blockchain-based solutions. Artificial intelligence may assist in the early detection of financial distress by processing accounting and market data through predictive algorithms capable of identifying warning indicators before the deterioration of the company's capital structure becomes irreversible, thereby enabling directors and shareholders to initiate recapitalization measures at an earlier stage and increasing the prospects of corporate recovery (Altman, 1968; Cismaru et al., 2025).

Furthermore, blockchain technology and smart contracts could strengthen the procedural integrity of the Accordion Method by recording corporate resolutions, subscriptions, and shareholder approvals on an immutable distributed ledger, thus enhancing transparency and reducing the risks associated with information asymmetry and challenges to the validity of corporate decisions (Lafarre & Van der Elst, 2018).

Smart contracts may also automate certain stages of the recapitalization process, including the execution of capital increases and the allocation of newly issued shares once predetermined legal conditions are satisfied, thereby improving efficiency and reducing transaction costs (Kim & Laskowski, 2018).

Similarly, blockchain-based shareholder registries and secure digital voting mechanisms may facilitate shareholder participation while ensuring greater traceability and reliability of corporate resolutions (Van der Elst & Lafarre, 2019).

Although these technologies cannot replace judicial oversight or statutory safeguards, they provide innovative tools capable of transforming the Accordion Method from a reactive restructuring mechanism into a more transparent, data-driven, and preventive framework for corporate rescue (Lafarre & Van der Elst, 2018).

Conclusion

The evolution of the “Accordion Method” transitions corporate capital from a static ledger figure into a dynamic legal instrument for enterprise survival. Moving beyond mere accounting, this technique embodies a complex legal equation that balances financial rescue with the protection of minority shareholders and creditor guarantees. As demonstrated by French regulatory integration and Lebanese judicial adaptation, the core challenge lies not in the mechanism itself, but in its execution - positioning the Accordion Method on a fine line between a legitimate tool for corporate resurrection and a tactical weapon for structural squeeze-outs.

Grounded in this synthesis, the principal findings and recommendations can be outlined as follows:

First: Findings (Results)

1. The Accordion Method constitutes a composite legal and financial operation. It does not rest on capital reduction alone, but on an indivisible, structural interdependence between the reduction and the subsequent increase, meaning that it forfeits its legitimacy if it fails to result in an actual and effective corporate recapitalization.
2. The paramount corporate interest constitutes the decisive metric for evaluating the legitimacy of this technique. However, this standard does not grant unfettered authority to the majority; rather, it remains strictly constrained by the prohibition of abuse of power and the obligation to respect shareholder and creditor rights.
3. The French judiciary firmly established the Accordion Method as a rescue mechanism before transitioning to defining the boundaries of its implementation. Meanwhile, the Lebanese judiciary has recognized the feasibility of its application, while heavily emphasizing its extraordinary nature and the necessity of subjecting it to strict judicial oversight.
4. Judicial protection for aggrieved parties remains vital to ensure that this technique does not deviate from its remedial function, whether through civil actions seeking the annulment of corporate resolutions or damages, or through criminal liability upon proof of fraud, misrepresentation, or abuse of authority.

Second: Recommendations (Proposals)

1. It is necessary to incorporate specific statutory provisions within the Lebanese Commercial Code that directly regulate the Accordion Method. Under these provisions, a company must be legally mandated, prior to initiating the procedure, to prove that its losses have reached a threshold causing capital erosion. Furthermore, the mechanics of the reduction and increase must be coupled within a single resolution enacted by the Extraordinary General Assembly, with a mandatory statutory grace period enforced between the publication of the resolution and its execution, thereby enabling shareholders and creditors to file an opposition before the competent court.
2. Prior to approving a recapitalization operation, companies should be legally required to submit an independent financial report prepared by the statutory auditors (commissaires aux comptes) or a financial expert appointed by the court or the competent regulatory authority. This report must imperatively outline the exact percentage of actual losses, the root causes of distress, and the post-recapitalization viability of the company, while rendering the entire operation null and void in the event of concealing material facts or providing non-compliant or fabricated data.
3. The preferential subscription right (droit préférentiel de souscription) for existing shareholders must be enshrined as a public policy, mandatory rule (règle d'ordre public). This framework should require that shareholders be individually notified of subscription timelines, terms, and the nominal value of new shares. Depriving shareholders of this right must be prohibited unless justified by a reasoned resolution passed by a qualified majority and backed by a financial report demonstrating that the cancellation of this preference constitutes the sole remaining means to rescue the company, while granting the judiciary the authority to issue summary injunctions to stay execution upon a prima facie showing of abuse of power or a breach of the principle of equal treatment.
4. It is essential to introduce specific criminal law provisions that explicitly criminalize the utilization of corporate restructuring mechanisms to achieve illicit personal gains or fraudulently squeeze out minority shareholders. This should be coupled with broadening the scope of criminal liability for board members and directors to encompass cases of inflating losses, concealing the true financial position of the corporation, or disseminating misleading data to induce shareholders to relinquish their proprietary rights, while linking these offenses to severe financial penalties and temporary disqualification from managing commercial corporations.

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In conclusion, this study paves the way for a paradigm shift in corporate rescue under Lebanese law, transcending traditional frameworks to embrace the era of LegalTech. Future legislative policies should pioneer the integration of predictive financial AI algorithms into corporate governance to trigger early distress warnings, while transforming the procedural mechanics of the Accordion Method into automated, decentralized Smart Contracts. By embedding these cryptographic safeguards, the legal system can guarantee an instantaneous, unalterable equilibrium between rescue imperatives and minority protection, effectively transitioning corporate law from a reactive judicial intervention into a proactive, tech-driven sanctuary that fosters unshakeable market trust.

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