European Commission

Early restructuring and a second chance for entrepreneurs

November 2016

Věra Jourová
Commissioner for Justice, Consumers and Gender Equality

Directorate-General for Justice and Consumers

Cyprus Country fact sheet

Every year in the EU, 200 000 firms go bankrupt, resulting in over 1.7 million people losing their jobs.

A well-functioning insolvency framework is essential to support growth and business creation. That is why the European Commission is putting forward modern and streamlined insolvency rules that will facilitate restructuring, give businesses a second chance and improve the efficiency of restructuring, insolvency and debt discharge procedures.

The proposed approach is expected to:

- ✓ Cut down the number of jobs lost due to bankruptcy;
- ✓ Bring more legal certainty for cross-border investors;
- ✓ Turn bad debt into performing credit to facilitate lending;
- ✓ Allow entrepreneurs to restart business activities, to keep innovation going and create an additional three million jobs across the EU.

What is the situation currently in Cyprus? [1]

Effectiveness of insolvency proceedings

9 Cyprus ranks 9th among EU Member States when it comes to the effectiveness of its insolvency proceedings.

Average length of insolvency proceedings (years)

CY	1.5
EU	2.0

Recovery rate for secured creditors following insolvency proceedings

CY	72.8 %
EU	65.0 %

▸ The most likely outcome for debtors in financial difficulty in Cyprus is **liquidation**.

[1] All figures are according to the World Bank report, *Doing Business 2017: Equal Opportunity for All*: http://www.doingbusiness.org/%7E/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf.

What will the new rules improve?

The situation today in Cyprus [2]	With the new rules
There are few early warning tools alerting debtors to the risk of insolvency and the urgency to act in order to avoid liquidation.	✓ Debtors can have better access to **early warning tools**, which can detect a deteriorating development and lead to more restructurings at an early stage. ✓ Develop a culture of preventive restructurings.
After the opening of early restructuring, the debtor has a restricted level of control of the day-to-day operation of his business. Losing control may create a barrier to start early restructuring.	✓ In principle, the debtor can remain in control of the day-to-day operation of his business. The appointment of an insolvency practitioner should not be mandatory in all cases. This will facilitate the **continuation of a debtor's business while restructuring**.
New financing for companies in the process of early restructuring is not specifically and adequately protected.	✓ Access to fresh money is vital for the rescued company. **New financing can be specifically protected** increasing the chances that restructuring will be successful.

(2) Information on current framework according to the Member States' responses on the implementation of the 2014 Commission Recommendation, an INSOL Europe Study of January 2014 and a comparative legal study carried out by the University of Leeds of January 2016.