



# Early restructuring and a second chance for entrepreneurs

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## Czech Republic 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 Czech Republic? <sup>(1)</sup>

#### Effectiveness of insolvency proceedings

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Czech Republic ranks 16<sup>th</sup> among EU Member States when it comes to the effectiveness of its insolvency proceedings.

#### Average length of insolvency proceedings (years)

CZ 2.1

EU 2.0

#### Recovery rate for secured creditors following insolvency proceedings

CZ 66.5%

EU 65.0%

► The most likely outcome for debtors in financial difficulty in Czech Republic is **liquidation**.

<sup>(1)</sup> 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 Czech Republic <sup>(?)</sup>	With the new rules
Early restructuring is subject to strict entry criteria.	✓ All companies can have easier access to a <b>flexible preventive restructuring framework</b> that can reduce the length and cost of court proceedings. Where necessary, the courts must be involved to safeguard the interests of third parties.
Individual creditors can hinder a restructuring procedure by seizing the debtor's assets as soon as the debtor is in financial distress, unless the majority supports a "breathing space".	✓ The debtor can benefit at an early stage from a <b>time-limited "breathing space"</b> from enforcement actions in order to facilitate negotiations and successful restructuring, without the need of support of the majority of the creditors.
Discharge may be granted to entrepreneurs within a maximum period of 5 years, subject to the repayment of 33% of debt.	✓ Honest over-indebted entrepreneurs can have access to a <b>full discharge of their debt after a maximum period of 3 years</b> and any repayment obligation will have to be adapted on individual circumstances. There will be adequate safeguards to prevent abuse.

<sup>(?)</sup> 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.