

## Changes in rules on insolvency and stabilization in Bulgaria

Insolvency and stabilization proceedings in Bulgaria have recently undergone legislative amendments introduced with the objective of increasing their effectiveness. We have outlined the following among all of the amendments passed:

### Speed and Efficiency

The amending law provides for the shortening of time limits for appealing against certain court acts issued in the course of insolvency proceedings. In addition, various procedural actions shall be notified to the parties through announcements in the company register.

As regards costs, any interested person shall be from now on entitled to pay the costs of the proceedings where the debtor's assets are not sufficient to cover even the initial costs of the proceedings. Further, where the proceedings have been suspended due to the lack of sufficient assets to cover the costs of their continuation, the amended legislation now allows a preliminary sale of some of the debtor's assets to cover such costs.

In order to avoid forum shopping practices by debtors changing their registered seats only for the purposes of the insolvency proceedings immediately prior to their commencement, the competent insolvency court will be from now onwards determined on the basis of the debtor's seat entered with the company register not later than 6 months before the date of submission of the insolvency application.

### Creditors' claims and encashment of insolvency estates

In order to facilitate the procedure for submission and acceptance of creditors' claims, the amended legislation lays out that standardized templates of applications and other documents for several steps and elements within insolvency proceedings will begin to be used.

The first creditors' meeting (convened on the basis of the data available in the debtor's books and records) will no longer exist. A creditors' meeting will be called after the approval by the court of the list of accepted claims. This practically means that the permanent insolvency administrator will no longer be appointed by the creditors as per the debtor's records but by the creditors whose claims have been submitted and accepted in the insolvency<sup>1</sup>. Further, it has been expressly stipulated in the law that any resolutions taken at creditors' meetings which are beyond the scope of competence of this body shall be null and void.

The amendments enhance the insolvency estate's protection through an extension of the period for submission of claims by the insolvency administrator/creditors for invalidation of several types of debtor's actions and/or transactions as well as through a reduction of the court fees for such claims.

Another amendment introduces the possibility for sale of debtor's assets via an electronic public sale through an e-platform for bidding.

### Insolvency proceedings of entrepreneurs

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<sup>1</sup>The court may entitle creditors with disputed claims to vote at the creditors' meeting

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The new legislation also introduces insolvency proceedings for natural persons – entrepreneurs, i.e., craftsmen, liberal professions, etc. who are not traders. In general, such proceedings will be governed by the rules applicable to sole traders but there are also some special requirements that apply, such as the definition of insolvency of an entrepreneur. In this respect, it's worth noting that to the extent the personal obligations of an entrepreneur cannot be distinguished from its business activity, these shall be considered to make up part of the business activity.

An interesting amendment relates to the extinguishment of unpaid obligations of sole traders and entrepreneurs after the insolvency proceedings and the related elimination of bans or limitations on the subsequent conduct of business activity – a change that is supposed to encourage entrepreneurial culture. These measures apply subject to several mandatory conditions that should be cumulatively met. Such conditions include, among others, the requirement for the debtor to have paid the costs of the insolvency proceedings and at least 1/3 of its liabilities. Even if all mandatory conditions are met, secured receivables and some other obligations will remain outstanding and cannot be extinguished by virtue of these new rules.

## Stabilization

Distressed companies threatened by imminent entry into insolvency proceedings are entitled to initiate stabilization proceedings and agree with their creditors on the manner of performance of the company's obligations in order to avoid the stage of insolvency.

After the latest amendments, the possibility for beginning stabilization proceedings will be triggered if there is a threat of insolvency in the next 12 months (instead of the current 6 months). A number of other rules in this section of the law have also been revised in view of providing more flexibility and efficiency of the procedure.

The Council of Ministers has been delegated the task of adopting a special ordinance on the early warning instruments and access to information in case of the probability of insolvency, which would develop further the legal framework and would potentially enhance the use of this tool.

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