

Reorganisation Proceedings in Estonia - An Overview

Reorganisation proceedings are a legal framework designed to assist companies in financial distress by allowing them to reorganise their debts and operations while avoiding liquidation. Reorganisation is meant above all for companies whose activities could be improved through reorganising - new procurement opportunities, reducing the number of staff, finding new markets etc. These proceedings are governed by the Reorganisation Act and Bankruptcy Act and provide an alternative to bankruptcy for companies facing financial difficulties but have a realistic chance of recovery.

Beginning of the process

The process begins when a company files an application to the county court to initiate reorganisation proceedings. A reorganisation application may also be filed by a creditor of the company. The goal of the plan is to restore the company's financial stability and ensure that it can continue to operate.

The following shall be appended to the reorganisation application:

- 1) a financial statement for the previous financial year;
- 2) an overview of the financial situation, economic results, and cash flows of the undertaking;
- 3) a list of debts as of the date of submission of the reorganisation application.

After the commencement of reorganisation proceedings, a reorganisation adviser prepares a reorganisation plan in the name of the undertaking. The reorganisation plan shall, inter alia, set out the following:

- 1) the description of the economic situation of the enterprise at the commencement of reorganisation proceedings and the analysis of the reasons which have brought about the need to reorganise the enterprise;
- 2) the expected economic position of the enterprise after reorganisation;
- 3) the term for compliance with the reorganisation plan;

4) the description of the reorganisation measures to be implemented and the analysis of their purposefulness, including the description of and justification for the transformation of a claim of an obligee;

5) the impact of the reorganisation plan on the employees of the enterprise.

Restrictions and decisions of the reorganisation proceedings

Reorganisation proceedings are not commenced in court if bankruptcy proceedings have been brought against the undertaking, a court ruling concerning the compulsory dissolution of the undertaking has been made or supplementary liquidation is carried out, or less than two years have passed from the termination of reorganisation proceedings regarding the undertaking.

If an application for the commencement of bankruptcy proceedings and reorganisation proceedings is submitted to a court at the same time, the applications are joined for one procedure and heard by the court with whom the first application is submitted.

On the initiation of reorganisation proceedings, the court shall appoint a practitioner in the field of reorganising after hearing the company's view. The court is not bound by the company's view when making its decision. If the court has appointed several practitioners in the field of reorganising but has not determined the division of their duties, the practitioners in the field of reorganising shall perform their duties based on a mutual agreement and cooperate fully in the reorganising proceedings.

After the petition is submitted, the court initiates the reorganisation decision, listing:

- 1) data on the person appointed reorganisation adviser;
- 2) term for the adoption of the reorganisation plan;
- 3) term for submission of the reorganisation plan to the court (within 60 days);
- 4) the amount payable by the undertaking for covering the remuneration for the reorganisation adviser and payment term.



Implementation and termination of the proceedings

Upon approval of the reorganisation plan, the legal consequences prescribed in the reorganisation plan shall apply to the company and to the person whose rights are affected by the reorganisation plan. The reorganisation plan does not apply to a creditor who has not received a reorganisation notice or a draft reorganisation plan for examination and comment, or who is otherwise unaware of the reorganisation proceedings.

A reorganisation adviser shall supervise the implementation of the reorganisation plan. At the end of every six months, the reorganisation adviser must submit a report to the creditors and the court describing the economic situation of the enterprise, the implementation of the reorganisation plan and other facts relevant to the creditors.

Once a reorganisation plan has been approved, fines for delay and contractual penalties on claims not transformed by a reorganisation plan are calculated according to the original legal relationship.

Reorganisation proceedings are terminated by premature termination of the proceedings, revocation of the reorganisation plan, premature implementation of the reorganisation plan or expiry of the deadline for implementation of the reorganisation plan specified in the reorganisation plan.

Results

If the reorganisation plan is successfully implemented, the company emerges from the proceedings with a more sustainable financial structure, allowing it to continue its operations and meet its obligations. However, if the plan fails or if the company is unable to meet the terms of the plan, the court may terminate the reorganisation proceedings and initiate bankruptcy proceedings, which could result in liquidation.

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