Legal protection proceedings have become more attractive

When a company is in financial difficulty, it has to choose the most appropriate solution to overcome it. One of such solutions is the legal protection proceedings (LPP), which has not been popular in Latvia so far. LPP is a voluntary procedure that allows a debtor (a legal entity) in good faith in financial difficulty to restore its solvency using the remedies and methods provided for in the Insolvency Law.

The LPP requires the debtor to prepare an LPP Action Plan (where the assistance of a specialist may be helpful), the purpose of which is to provide creditors with a clear vision of how the debtor intends to restore or maintain its ability to settle its liabilities. This plan must be liaised with a majority of creditors and approved by the court.

Since the preparation of LPP Action Plan is usually a serious challenge for the debtor, in particular where the company does not have the resources to hire a specialist, to facilitate the process of preparation or amending of an LPP Action Plan, the Ministry of Justice, in cooperation with industry experts, has developed guidelines for the preparation of an LPP Action Plan, as well as LPP Action Plan Template to structure the plan more easily.

Another innovation aimed at enabling a company in financial difficulties to restructure effectively at an early stage and avoid insolvency, thereby reducing the liquidation of viable companies, is the recent entry into force of the prohibition of ipso facto clauses in legal protection proceedings. It means that a creditor, supplier or service provider is prohibited from terminating, accelerating or, in any other way, modifying essential executory contracts to the detriment of the debtor by means of a contractual clause providing for such measures linked to or arising out of the commencement of an LPP case. This prohibition applies to LPPs commenced as of 15 September 2023.

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