

Restructuring across borders
Latvia

CORPORATE RESTRUCTURING AND INSOLVENCY PROCEDURES | JANUARY 2024





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Introduction

In Latvia, restructuring and insolvency are mainly governed by the Insolvency Law (the **Act**), which came into force on 1 November 2010, replacing the previous Insolvency Law of 2007.

Since then, the Act has been amended several times to improve the procedures. Some of the most extensive amendments concern the appointment and control of insolvency administrators, which is now a function of the Insolvency Control Service (a state institution). Also, the Electronic Insolvency Accounting System was introduced in 2019 to promote the protection of the interests of all parties involved in insolvency and legal protection proceedings and simplify their involvement.

The three principal restructuring and insolvency regimes for companies in Latvia are:

- corporate insolvency proceedings (*juridiskas personas maksatnespejas process*);
- legal protection proceedings (*tiesiskas aizsardzibas process*); and
- voluntary liquidation (*likvidacija*).

The Act introduced the following general legal principles which govern both corporate insolvency and legal protection proceedings:

(a) Retention of creditor rights: creditor rights acquired before the proceedings are retained during the proceedings, and restrictions on creditor rights established during the proceedings cannot go beyond what is necessary to accomplish the objective of the proceedings.

(b) Equality of creditors: creditors will have an equal opportunity to take part in the proceedings and receive payment of their claims under obligations established with the debtor before the commencement of proceedings.

(c) Prohibition of damaging actions: a creditor and/or a debtor may not conduct individual actions that would damage the interests of the body of creditors as a whole.

(d) Performance of obligations: during the proceedings, such measures are to be applied that allow for the performance of the debtor's obligations to the maximum extent.

(e) Efficiency of proceedings: the proceedings are to be conducted to allow for accomplishing the proceedings' objective with the least resources.

(f) Efficient disposals of property: in line with the aim of corporate insolvency proceedings, any sale of the debtor's property must be conducted to ensure their return to the market as soon as possible.

(g) Transparency: all relevant information must be available to all entities involved in the proceedings to ensure that the proceedings are credible and the interests of all parties are observed (there is an exception to this principle for information that might be damaging to the lawful interests of the debtor or the creditors).

(h) Good faith: the entities involved in the proceedings must exercise their rights and fulfil their duties in good faith, and the debtor and/or creditors cannot use the proceedings for unfair gain.



Corporate insolvency proceedings (*juridiskas personas maksatnespejas process*)

These proceedings are commenced by the company, its liquidator (if, during a voluntary liquidation, elements of insolvency occur), its creditors, employees, or an insolvency practitioner in the main insolvency proceedings commenced in another EU member state presenting an application to the court. Secured creditors cannot submit an application for corporate insolvency proceedings, except to the extent that any part of their claim is unsecured. However, in cases where the debtor is subject to compulsory liquidation in accordance with a decision of the commercial register authority or the tax administration, the secured creditors are entitled to submit an application for corporate insolvency proceedings.

Unsecured creditors (including secured creditors in respect of any unsecured element of their claim) cannot submit an application if legal protection proceedings are initiated or being implemented against the debtor unless the debtor is in breach of its obligations concerning its “plan of measures” (essentially the debtor’s proposals as to how to resolve its economic difficulties).

In Latvia, several criteria can lead to a debtor being insolvent, the most common being that the debtor is unable to pay its due and payable debts. If any of the criteria for insolvency are established by the court, then the court must open corporate insolvency proceedings and declare that the company is insolvent.

The court will review a creditor’s application to open corporate insolvency proceedings in an oral hearing. If the company itself applies, the application will be reviewed by the court in written proceedings. Subject to certain caveats, the judgment of the court opening corporate insolvency proceedings is final.

The effect of the opening of corporate insolvency proceedings is that:

- (a) the company loses the right to dispose of its property, as well as any property of a third party held by it or in its possession – instead, such rights pass to an administrator;
- (b) the administration of the company’s business also passes to the administrator;
- (c) the accrual of loan interest, late payment charges and statutory interest is stopped; and
- (d) two months from the opening of the proceedings, a secured creditor is prohibited from requesting the sale of the pledged property of the debtor.

The opening of corporate insolvency proceedings also has the effect of staying civil proceedings against the company and terminating the execution of any judgments for the collection of debts, among other things.

The principal purpose of Latvian corporate insolvency proceedings is to satisfy, as fully as possible, the claims of creditors by obtaining the maximum revenue from the sale of the insolvent company’s property. This is usually done in open auctions organised by the administrator. However, in the case of certain types of property, the legislation specifies particular forms of sale. The administrator may also sell the debtor’s property to an individual purchaser without offering it for sale at an open auction.

Corporate insolvency proceedings are a terminal procedure which ultimately results in the company being dissolved and struck off the Commercial Register of the Register of Enterprises of Latvia unless legal protection proceedings are commenced.

Legal protection proceedings (*tiesiskas aizsardzibas process*)

The purpose of legal protection proceedings is to allow a debtor breathing space to restructure its debts. Legal protection proceedings are available to all corporate debtors regardless of whether they are insolvent or encountering financial difficulties; however, it is companies in financial difficulties which are likely to make use of legal protection proceedings. Legal protection proceedings are commenced by way of an application to the court by the debtor, and the opening of legal protection proceedings results in a moratorium on creditor action. The moratorium could be cancelled or limited by a court decision upon application by creditors.

Once legal protection proceedings are commenced, the company must draft a plan of measures. The plan may include any of the following:

- (a) a postponement of the performance of payment obligations;
- (b) the use of set-off;
- (c) the cancellation or reduction of the principal debt, contractual penalties or interest;
- (d) the granting of security or rights in rem over movable assets or real property;
- (e) the sale of moveable assets or real property;

- (f) a reorganisation of the company;
- (g) an increase in the company's share capital; and
- (h) other methods which correspond to the aim of the proceedings.

The plan must be agreed upon by the company's secured creditors and unsecured creditors in the following proportions:

- (a) in respect of secured creditors, more than two-thirds of all the company's secured creditors by principal value must approve the plan; and
- (b) in respect of unsecured creditors, more than half of all the company's unsecured creditors by principal value must approve the plan.

In the event that the plan of measures is not agreed by the prescribed majority of creditors, the debtor may nevertheless ask the court to approve the plan through enforcement, provided that the following criteria are met:

- (a) the plan of measures has been drawn up in accordance with the requirements of the Act and has been handed over for approval to all creditors;

(b) the plan of measures has been approved by at least one group of creditors, except the one which, following the valuation of the debtor as a continuing entity or in the event of corporate insolvency proceedings, would not receive any payment or retain any participation;

(c) the action plan shall ensure that the dissenting creditor group will be at least in the same favourable situation as the agreeing creditor group;

(d) no group of creditors may receive or retain more than its claim or its full participation.



Legal protection proceedings (*tiesiskas aizsardzibas process*) (cont.)



Following the creditors' approval of the plan of measures, the plan must be submitted to the court for approval. Once the court has approved the plan, it enters into force and binds all creditors, whether or not they voted in favour of the plan. A supervisory person will be appointed to oversee the company's operations during the implementation of the plan only in limited cases, and in general the authority of the supervisory person would end once the plan is approved by the court. In general, the plan must be completed within two years from its effective date but if justified by the plan, the duration of the plan could be up to four years.

The Act also provides for out-of-court legal protection proceedings. Generally, these out-of-court proceedings are subject to the same rules as court-based legal protection proceedings. However, in out-of-court legal protection proceedings, the company must simultaneously submit an application to the court demonstrating that it has complied with the following requirements:

- (a) the company has drafted a plan of measures;
- (b) creditors in the proportions described above have agreed to the plan of measures;
- (c) the creditors in the proportions described above have agreed with the supervisory person and the company on the supervisory person;

(d) the company has received an opinion from the supervisory person on the effectiveness and compatibility of the plan of measures; and

(e) the company has sent the plan of measures to those creditors who are not party to the plan.

In out-of-court legal protection proceedings, putting together the plan of measures is done outside the court process. Once this (and the other steps above) have been taken, the court will approve the process, and the plan will be implemented accordingly.

Voluntary liquidation (*likvidacija*)

The company may also terminate its activities in cases where it is solvent. Liquidation is mainly governed by the Commercial Law of 2000, as amended.

A decision regarding the commencement of a liquidation procedure must be adopted by a shareholders' meeting by no less than two-thirds of the votes represented at the meeting unless the articles of association specify that a larger majority is needed.

Company liquidation is carried out by the executive body as the company liquidator. However, the meeting of shareholders may elect another liquidator. Upon the liquidator's election, the executive body's powers cease, but its responsibility is preserved until the enterprise is liquidated.

Liquidators must collect debts, including amounts due to the company in relation to unpaid capital on shares, sell the company's property, satisfy the claims of creditors and distribute the remaining property among the shareholders. If it is found during the course of the liquidation that the property of the company is not sufficient to satisfy all legitimate claims of creditors, the liquidator has a duty to submit an application for corporate insolvency proceedings.

The operations of a solvent company may also be terminated by the court, the Register of Enterprises or a tax authority if the company has violated certain requirements of legislation in its activities.

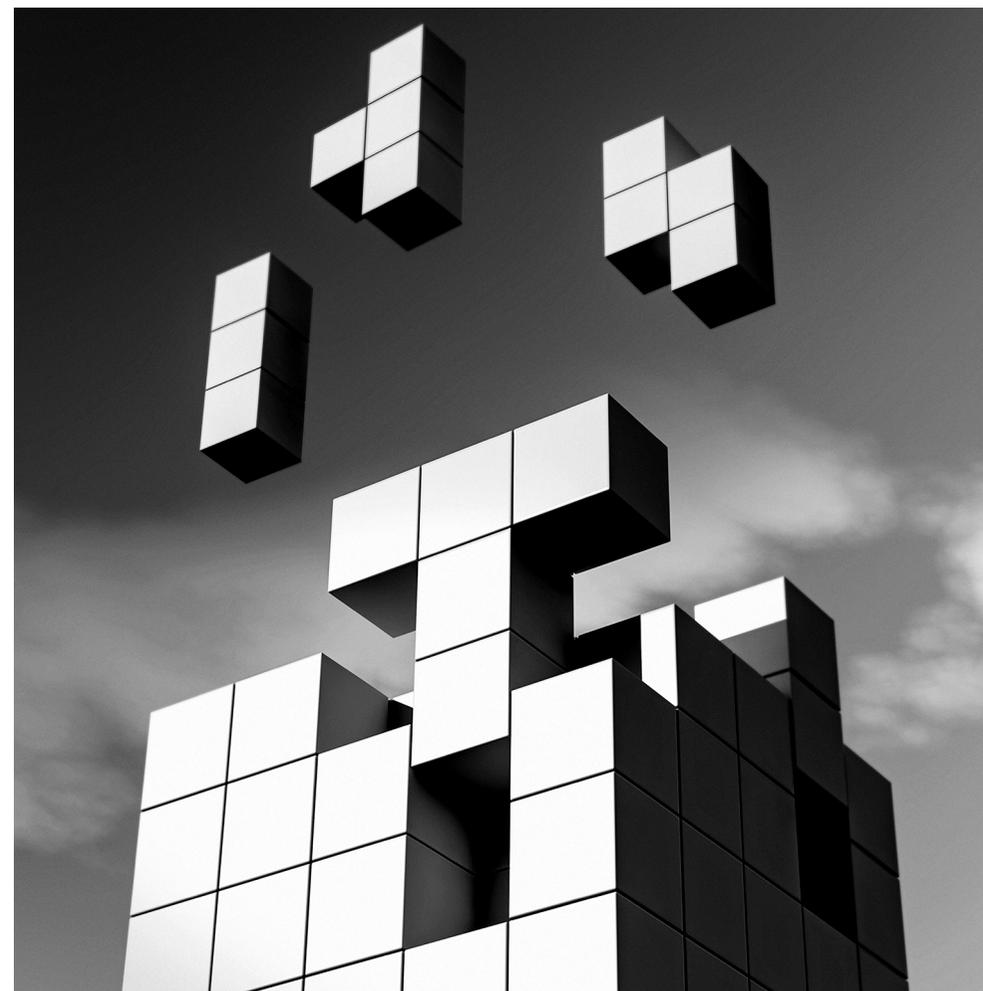


EU legal acts on restructuring and insolvency

The EU Regulation on Insolvency Proceedings 2015 (Regulation (EU) 2015/848) (the **Recast Regulation**), as amended, applies to all proceedings opened on or after 26 June 2017. Its predecessor, the EC Regulation on Insolvency Proceedings 2000 (Regulation (EC) 1346/2000) (the **Original Regulation**) continues to apply to all proceedings opened before 26 June 2017.

One of the key changes in the Recast Regulation is that it brings into scope certain pre-insolvency “rescue” proceedings, and these are now listed alongside the traditional insolvency procedures in Annex A to the Recast Regulation. The Recast Regulation retains the split between main and secondary/territorial proceedings but secondary proceedings are no longer restricted to a separate list of winding up proceedings – secondary proceedings can now be any of those listed in Annex A. Under the Recast Regulation, both corporate insolvency proceedings (*juridiskas personas maksatnespejas process*) and legal protection proceedings (*tiesiskas aizsardzibas process*) are listed in Annex A.

Further, the EU Directive on restructuring and insolvency (Directive (EU) 2019/1023) (the **Restructuring Directive**) was transposed into national legislation by the Amendments (the **Amendments**) to the Act of 16 March 2023 which came into force on 29 March 2023. The Amendments implementing the Restructuring Directive applicable to legal protection proceedings and corporate insolvency proceedings commenced from 15 September 2023. The Restructuring Directive and the Amendments aim to increase the effectiveness of restructuring and insolvency procedures and allow viable companies in financial difficulties to continue their business.



Key contacts

If you require advice on any of the matters raised in this document, please contact any of our partners or your usual contact at A&O Shearman, or email rab@aoshearman.com.

This fact sheet has been prepared with the assistance of Ellex Klavins. Any queries under Latvian law may be addressed to the key contacts listed below:

ELLEX KLAVINS

A&O SHEARMAN

Māris Brizgo
Associate Partner

Tel +371 678 14861
maris.brizgo@ellex.legal

Attila K Csongrady
Counsel

Tel + 421 2 5920 2415
attila.csongrady@aoshearman.com

Peter Redo
Senior Associate

Tel +421 2 5920 2420
peter.redo@aoshearman.com

Katrina Buckley
Global Co-Head of
Restructuring

Tel +44 20 3088 2704
katrina.buckley@aoshearman.com

Fredric Sosnick
Global Co-Head of
Restructuring

Tel +1 212 848 8571
FSosnick@aoshearman.com

Lucy Aconley
Counsel

Tel +44 20 3088 4442
lucy.aconley@aoshearman.com

Christopher Poel
Senior Knowledge Lawyer

Tel +44 20 3088 1440
christopher.poel@aoshearman.com

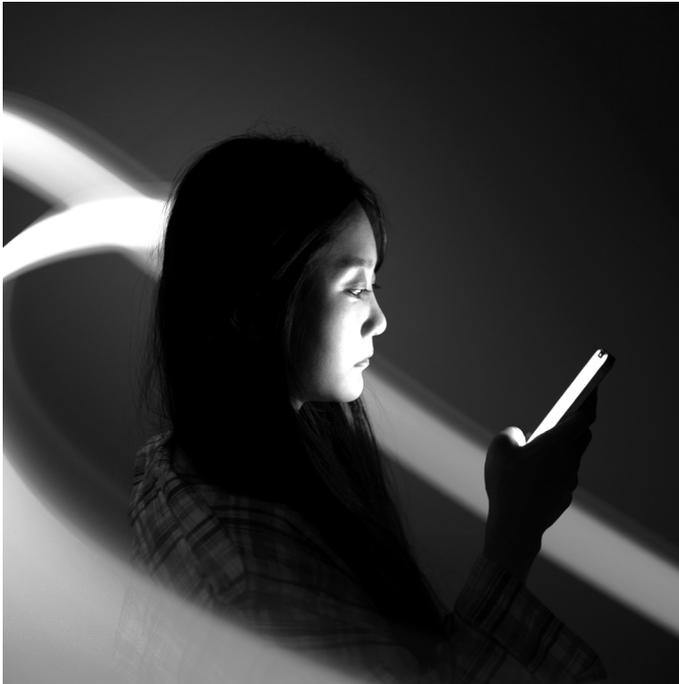
Elie Aspinall
Associate

Tel +44 20 3088 1124
elena.aspinall@aoshearman.com

Further information

Developed by A&O Shearman's market-leading Restructuring group, "**Restructuring Across Borders**" is an easy-to-use website that provides information and guidance on all key practical aspects of restructuring and insolvency in Europe, Asia, the Middle East and the U.S.

To access this resource, please [click here](#).



For more information, please contact:

LONDON

Allen Overy Shearman Sterling LLP
One Bishops Square
London
E1 6AD
United Kingdom

Tel +44 20 3088 0000

Fax +44 20 3088 0088

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