The International Comparative Legal Guide to:

Corporate Recovery & Insolvency 2017

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1 Overview

1.1 Where would you place your jurisdiction on the spectrum of debtor to creditor-friendly jurisdictions?

Polish law regulations on bankruptcy and restructuring were substantially altered due to changes which entered into force on 1st January 2016.

The fundamental functions of the new regulation are:

- Realising a ‘new chance’ policy, i.e. guaranteeing an opportunity for a new start to entrepreneurs whose enterprises failed in connection with deteriorating economic conditions.
- Separating restructuring procedures, aimed at preventing a debtor’s enterprise from reviling (or stigmatising) bankruptcy procedures; examination of the effectiveness of the law in force heretofore has demonstrated that the very declaration of bankruptcy in the majority of cases precluded any restoration of a debtor’s enterprise due to the negative attitude of the economic environment (creditors/counterparties) towards an entrepreneur who was declared bankrupt.
- Maximising the speed and effectiveness of restructuring and bankruptcy.
- Providing entrepreneurs and their counterparties with effective restructuring instruments while simultaneously maximising protection of debtors’ rights.
- Introducing a rule according to which declaration of bankruptcy becomes an ultimate solution, only when restructuring fails to yield economic effects.
- Increasing rights of active creditors.

New regulations assume a far-reaching ‘friendliness’ of proceedings and place substantial emphasis on reaching an agreement, especially in the process of restructuring, but also in the case of declaration of bankruptcy. For this reason the new procedures are extremely positive, and guarantee extensive rights both for the debtor and for the creditor, placing Poland in the middle of the spectrum of debtor-to creditor-friendly jurisdictions.

1.2 Does the legislative framework in your jurisdiction allow for informal work-outs, as well as formal restructuring and insolvency proceedings, and are each of these used in practice?

The legal regulations previously in force (before 1st January 2016), which still apply to bankruptcies declared before this date, provided for rather formal principles for conducting both bankruptcy and rehabilitation proceedings. Due to the above-mentioned formality, the bankruptcy procedure was often taken advantage of in practice and the rehabilitation (restructuring) procedure was in reality a dead letter, which was the main reason for a substantial amendment of the law.

New regulations provide for a significantly broader catalogue of procedures. The Restructuring Law provides for four types of restructuring procedures, starting from the maximally informal proceedings on approval of composition, through gradually more formalised restructurings (usually connected with the worst situation possible for an entrepreneur at the moment of initiation of proceedings or the contentious nature of multiple claims) in expedited composition proceedings, composition proceedings or recovery proceedings. As these provisions have been newly implemented, it is still too early to be able to predict the popularity of these procedure types, in particular in connection with the fact that entrepreneurs must become convinced of their value following the period when, in practice, previous provisions on restructuring constituted a dead letter. The adaptation of new provisions to the diverse needs of various entrepreneurs allows one to assume, however, that the new types of proceedings will become more popular. The first data, according to which in 2016, 212 restructuring, composition and sanation proceedings were opened, and in this year close to 150 bankruptcies less were declared in relation to the previous year, also point to this.

The bankruptcy procedure remains formal in principle, although in this case the changes aim at increasing the role of active creditors as well.

2 Key Issues to Consider When the Company is in Financial Difficulties

2.1 What duties and potential liabilities should the directors/managers have regard to when managing a company in financial difficulties? Is there a specific point at which a company must enter a restructuring or insolvency process?

Restructuring procedures are voluntary in nature, which means that no statutory legal obligation to initiate restructuring proceedings at a specific moment has been imposed on managers. Nevertheless, neglecting to take advantage of a possibility for restructuring may be recognised as improper performance of the management contract, especially if such an omission leads to the deterioration of a company’s standing. If a restructuring procedure is initiated, a number of duties concerning cooperation are imposed on managers.

In the case of bankruptcy proceedings, managers are under a legal obligation to file a motion for declaration of bankruptcy not later
assignment of a future claim is also ineffective unless the assignment agreement being recognised as ineffective by demonstrating that it
In the latter two cases, the second party may try to prevent the motion for declaration of bankruptcy may also be found ineffective.
Also, acts in law performed by a debtor against remuneration with their next of kin or companies with equity or personal ties, which are stipulated
An enterprise may be restructured in an entirely informal manner outside of the Restructuring Law regulations – by concluding creditors’ agreements which adequately modify payment rules or deadlines or another manner of delivering an obligation. However, this creates the problem of the need to come to an agreement with individual creditors, while it must be remembered that, in case of a risk of bankruptcy, preferential satisfaction of some creditors at the expense of others is inadmissible and in extreme cases may result in criminal charges (Article 302 of the Penal Code).
Applying for an extremely informal restructuring procedure, i.e. proceedings on approval of composition, is an alternative solution. In such proceedings, the debtor concludes a civil law agreement with a composition supervisor selected by the debtor. In cooperation with the selected supervisor, the debtor formulates a restructuring plan and composition proposals and, subsequently, the debtor himself collects creditors’ votes in favour of the composition. If adoption of a composition is approved by a majority of creditors with the right to vote who in total own at least ⅔ of the total of the claims giving them the right to vote, the composition is accepted. Hence, it may be accepted even against the stance of some creditors, which serves to increase the effectiveness of this procedure. The accepted composition, along with the supervisor’s report, is then submitted to the court which then approves it (insofar as it does not violate the law and is plausible).

3 Restructuring Options

3.1 Is it possible to implement an informal work-out in your jurisdiction?

In restructuring proceedings, the regulation pertaining to the most formal kind, i.e. recovery proceedings, contains a number of provisions regulating ineffectiveness and challenging a debtor’s acts in law. In particular, the provisions stipulate the ineffectiveness of certain acts in law (including agreements, in-court settlements, recognition of statement of claims, etc.) – against a lack of remuneration or equivalent – performed by the debtor within a period of one year prior to the filing of a motion for initiation of proceedings, ineffectiveness of collaterals established within this period (including sureties and warranties granted) not directly related to the debtor receiving a mutual performance (in particular collaterals on loans or credits granted to third parties, including among other companies in the group), as well as collaterals exceeding the value of a performance obtained by the debtor. These provisions also provide for the possibility of partially reducing the excessively inflated remuneration of managers within three months prior to filing a motion for the opening of proceedings, as well as during the course of such proceedings. By way of an action, one may also demand invalidation of a debtor’s acts in law performed in conscious and glaring violation of its creditors’ interests.

Similar regulations pertain to bankruptcy proceedings. Acts in law (including agreements, in-court settlements, recognition of statement of claims, etc.) performed by a bankrupt within a period of one year prior to the filing of a motion for initiation of proceedings and by way of which the debtor disposed of their assets are ineffective, if performed against remuneration or not, where the value of the bankrupt’s performance glaringly exceeds the value of the mutual performance. In principle, ineffectiveness also affects collaterals and payment of non-mature debt within six months prior to the date of the filing of a motion for declaration of bankruptcy. Also, acts in law performed by a debtor against remuneration with their next of kin or companies with equity or personal ties, which are stipulated in the Act, within six months prior to the date of the filing of a motion for declaration of bankruptcy may also be found ineffective.

In the latter two cases, the second party may try to prevent the agreement being recognised as ineffective by demonstrating that it
does not lead to injury of the bankrupt’s creditors. The bankrupt’s assignment of a future claim is also ineffective unless the assignment agreement was concluded not later than six months prior to the filing of the motion for declaration of bankruptcy in writing with a certified date. Establishing a mortgage, lien, registered pledge, or maritime mortgage on a debtor’s assets may also be recognised as ineffective in certain cases if the bankrupt was not a personal debtor of a secured creditor and the encumbrance was established within one year prior to the date of the filing of the motion for declaration of bankruptcy, and in connection with the establishment thereof, the bankrupt did not receive a commensurate performance. Also, contractual penalties stipulated by the debtor may be found ineffective, especially when they are substantially inflated or when the debtor performed a substantial part of the agreement.

There are substantial risks connected with challenges during restructuring or bankruptcy proceedings. The agreements concluded by the debtor are, therefore, most closely related to acts in law performed against a lack of remuneration or equivalent, as well as to acts in law performed with affiliated entities or persons. Defences against recognising these acts in law as ineffective will, therefore, be, in particular, based on: (i) non-conclusion of agreements over a lack of remuneration or equivalent in situations where the debtor is in a financial situation indicating that they may be insolvent or face a real risk of insolvency within one year; and (ii) ensuring that no other creditors are injured as a result of the conclusion of agreements between affiliated companies.
debtor’s insolvency, as well as on the structure of their obligations, especially the existence of contentious claims. These four procedures are, in order of degree of formality: (i) proceedings for approval of composition; (ii) expedited composition proceedings; (iii) composition proceedings; and (iv) recovery proceedings.

In principle, restructuring aims at concluding a composition, which offers the possibility for application to a very extensive range of restructuring solutions, including exchanging claims for stocks or shares, adjourning payments, spreading payments into instalments, reducing claims, modifying collaterals on claims, etc. The possibility of dividing creditors into groups to subsequently apply a variety of restructuring solutions for various groups is also possible.

Liquidating a bankrupt’s assets and repaying creditors from the funds obtained as a result of the liquidation is possible in bankruptcy proceedings. However, there is also a possibility in such proceedings to enter into a composition with creditors. New provisions also provide for a possibility to carry out bankruptcy proceedings with a so-called prepared liquidation. Within this procedure, along with a motion for declaration of bankruptcy, a motion for approval of terms and conditions for disposal of a debtor’s enterprise must be filed. If the price exceeds the amount possible to obtain in bankruptcy proceedings, the bankruptcy court allows the motion for approval of conditions of disposal, the enterprise is sold, and the funds obtained from the sale are allocated in order to satisfy creditors.

3.3 What are the criteria for entry into each restructuring procedure?

A restructuring procedure may be initiated for an insolvent debtor or one facing insolvency. A debtor is considered insolvent if they fail to meet their cash obligations. It is presumed that such a state occurs if there is a delay by the debtor in satisfying their cash claims which exceeds three months. A debtor who is unable to meet his obligations only temporarily is not considered insolvent, yet this does not rule out the possibility of launching restructuring procedures. A debtor who is a legal person or an organisational unit is also considered insolvent when their cash obligations exceed the value of their assets (liabilities exceed the value of assets), and this state of affairs persists for a period longer than four months. A debtor whose economic situation indicates that they may become insolvent within a short time period is considered a debtor facing insolvency.

Application for a given mode of restructuring proceedings depends on further prerequisites. Proceedings in the case of approval of composition are designed for entrepreneurs who are capable of reaching an agreement with the majority of their creditors without the involvement of the court, in a situation where the total of contentious claims does not exceed 15% of the total claims giving a right to vote on composition. The same limit on contentious claims occurs in the case of expedited composition proceedings, whereby in the case of this procedure the participation of the court is a lot more extensive, yet it has an advantage in that there is a possibility for the debtor to obtain suspension of any enforcement proceedings being under way in relation to such debtor.

By assumption, composition proceedings are to be used only when the value of contentious claims does not permit the use of two faster and more simple procedures. Recovery proceedings are in turn dedicated for entrepreneurs whose financial situation is so difficult that composition proceedings would not allow the debtor to obtain protection against enforcement on the part of creditors not covered by the composition.

3.4 Who manages each process? Is there any court involvement?

In the proceedings on approval of composition, acts in law are mainly performed by the debtor proper, but in principle the debtor also manages their assets. The debtor cooperates with a supervisor which the debtor selected and employed. In cooperation with the debtor, the supervisor prepares a restructuring plan and composition offers, draws up a list of claims, cooperates with the debtor in the scope of collecting creditors’ votes and submits a report on the correct course of proceedings, which constitutes a basis for the court to approve the composition (the court joins in only at this final stage).

In expedited composition proceedings, the role of the court and judicial bodies is significantly greater. The proceedings commence with the filing of a motion for the initiation of proceedings, and a court administrator is appointed for the debtor to perform most of the acts in law together with an appointed judge. After the court administrator is appointed, the debtor may exercise ordinary management of their assets, whereas activities exceeding the scope of ordinary management must be approved by the court administrator or, in certain cases, even consent of the council of creditors must be obtained. In certain cases, e.g. if the manner of the debtor’s management does not guarantee delivery of the composition, the court may set aside the debtor’s own management and appoint an administrator.

Analogical principles apply to composition proceedings. In recovery proceedings applied to the most difficult cases of restructuring, the court will be involved from the very beginning and, in principle, deprived the debtor of their own management by appointing an administrator who acts on his behalf and at the debtor’s cost.

3.5 How are creditors and/or shareholders able to influence each restructuring process? Are there any restrictions on the action that they can take (including the enforcement of security)? Can they be crammed down?

The role of shareholders in restructuring proceedings is limited. They may, however, influence the composition of managing bodies which will act on behalf of the debtor, whose role and rights are significantly broader.

The role of creditors is a lot more extensive. What is particularly worth emphasising here is the possibility to file a motion for initiating recovery proceedings, the right to submit composition to a vote, or special authorisations of the council of creditors to adopt specific decisions of relevance for the course of the proceedings and the possibility to exert influence on the appointment of the court administrator, etc.

In principle, on the date on which a decision on approval of composition becomes final and valid, ongoing proceedings on securing claims and enforcement proceedings against the debtor aimed at satisfying claims covered by the composition are discontinued by virtue of law, whereas enforcement titles and writs of execution concerning claims covered by composition lose the attribute of enforceability.

In the course of restructuring proceedings, for approval of composition there are no limits on creditors carrying out enforcement against the debtor. In the remaining types of restructuring procedures, enforcement proceedings and proceedings on securing claims are suspended (ex officio or by a motion).
4 Insolvency Procedures

4.1 What is/are the key insolvency procedure(s) available to wind up a company?

Currently, the only insolvency procedure is the procedure stipulating liquidation of the debtor’s assets (although, even in this procedure, entering into a composition by creditors is admissible).

4.2 On what grounds can a company be placed into each winding up procedure?

A bankruptcy procedure may be initiated against an insolvent company (cf. the comments above). Such a procedure is initiated solely on a motion filed by an authorised entity: in principle a debtor or a personal creditor. However, despite the state of insolvency, bankruptcy is not declared if the debtor’s assets are insufficient to satisfy the costs of proceedings, or they are only sufficient to satisfy such costs and no others. The court may also dismiss a motion for declaration of bankruptcy when, despite the status of insolvency, there is no risk that the debtor would cease to deliver their mature cash liabilities within a short time frame, and also when the motion was filed by a creditor and the debtor demonstrates that the claim is fully contentious and the dispute between parties arose prior to the filing of the motion.

4.3 Who manages each winding up process? Is there any court involvement?

In bankruptcy proceedings, the court is involved from the very start, since it is only the court that examines the motion for declaration of bankruptcy and subsequently declares it. The burden of conducting further proceedings rests with a receiver who manages assets and conducts the proceedings with the participation of a judge commissioner, and in specific cases, with the participation of the court, debtor, or council of creditors.

4.4 How are the creditors and/or shareholders able to influence each winding up process? Are there any restrictions on the action that they can take (including the enforcement of security)?

The role of shareholders in a bankruptcy procedure is limited. They may, however, influence the composition of managing bodies who acts on behalf of the debtor, whose role and rights are significantly broader.

The role of creditors is significantly broader; it is worth noting that they have the right to file a motion for initiating bankruptcy proceedings and to accept a composition in bankruptcy. The council of creditors can give specific authorisations to adopt decisions, specified in law, which are of significance for the course of the proceedings.

Enforcement proceedings against assets constituting a bankruptcy estate and initiated prior to the date on which bankruptcy was declared are suspended by virtue of law on the date of declaration of bankruptcy. Such proceedings are discontinued by virtue of law when the decision on declaration of bankruptcy becomes final and valid. After the date of declaration of bankruptcy, it is inadmissible to carry out enforcement from assets being a part of the bankruptcy estate and establish a collateral on the bankruptcy’s assets, with the exception of securing specific alimony or annuity claims.

4.5 What impact does each winding up procedure have on existing contracts? Are the parties obliged to perform outstanding obligations? Will termination and set-off provisions be upheld?

In principle, initiation of a restructuring procedure does not result in expiry or dissolution of agreements in force (although certain agreements may be recognised as ineffective, as discussed above). A debtor’s cash obligations which are not yet mature become

Restructuring and bankruptcy are financed from the debtor’s (bankrupt’s) resources. Satisfaction of running costs of proceedings, in principle, has priority over satisfaction of other claims. In specific cases, it is also possible to resort to public aid.

The provisions foresee that in the case of the creditor, which after the opening of restructuring proceedings grants or is to grant financing in the form of a loan, bonds, bank sureties, letters of credit or on the basis of another financial instrument necessary to execute the composition. However, the possibility of aberration from the principle of the equal treatment of creditors (or creditors from a given group) is possible within the framework of a composition. For such a creditor granting financing, it is possible, within the composition, to establish more favourable terms of repayment by the debtor, which arose before of the opening of the restructuring proceedings.

Moreover, the claims on account of the credit, loan, bond, bank surety, letter of credit or other financial instrument foreseen in the composition, approved in the restructuring proceedings and granted in relation to the performance of such a composition, if the bankruptcy of the debtor was announced as a result of the examination of the motion on the declaration of bankruptcy, submitted no later than three months after the legally valid repeal of the composition, will be satisfied in the first category of satisfaction (compare question 4.6 below) hence before a majority of the bankrupt’s other liabilities.

In principle, initiation of restructuring proceedings does not result in expiry or dissolution of binding agreements (although certain agreements may be found ineffective, as discussed above). Moreover, in certain cases, initiation of such proceedings entails a ban on termination of specific agreements (lease, loan) in the course of restructuring, which is to provide a guarantee that adoption of a decision on restructuring does not result in immediately blocking the debtor’s functioning by its counterparties. In principle, agreements must be performed, although the debtor’s payments on the grounds of claims covered by the composition will be withheld in the majority of cases until the composition is approved. In principle, provisions of the agreement, which in the event of the filing of a motion for initiating restructuring proceedings or initiation thereof stipulate a change or dissolution of a legal relationship which a debtor is a party to, are invalid.

Provisions of the Restructuring Law and Bankruptcy Law also provide for specific regulations for certain types of agreements (e.g. bank account agreement, lease agreements, loan, agency agreements, bailment agreement, etc.).

3.6 What impact does each restructuring procedure have on existing contracts? Are the parties obliged to perform outstanding obligations? Will termination and set-off provisions be upheld?

3.7 How is each restructuring process funded? Is any protection given to rescue financing?

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mature on the date of declaration of bankruptcy, whereas non-cash proprietary obligations become cash obligations on the date of declaration and also become payable, even if they have not reached maturity. Agreement provisions, which in the event of the filing of a motion for declaration of bankruptcy or in the event of declaration of bankruptcy stipulate a modification or dissolution of legal relationships which the bankrupt is a party to, are invalid.

4.6 What is the ranking of claims in each procedure, including the costs of the procedure?

Firstly, funds obtained from liquidation of the bankruptcy estate are used to cover the costs of proceedings, and then claims in an order set forth in the Act are satisfied in an extensive list. To put matters more simply:

- claims included in the first category cover those arising from employment agreements, alimony, annuity, and those allocated to covering liabilities resulting from acts performed by the receiver;
- the second category covers the principal part of claims (i.e. claims not included in other categories), including those arising from a majority of agreements, as well as from taxes and social insurance premiums;
- the third category covers interest rates on the claims above; and
- the fourth category covers amounts due to shareholders or stockholders on the grounds of a loan (or a similar agreement) granted within five years prior to declaration of bankruptcy, including interest rates.

Where the specific property right is encumbered with a mortgage or lien, funds obtained after liquidation of this right upon satisfying an adequate part of the costs of proceedings are primarily due to the party authorised from the collateral.

4.7 Is it possible for the company to be revived in the future?

A bankruptcy procedure ends in liquidation of the company, and as a result the company ceases to exist and may not be restored (a new company may be established). If, however, the bankruptcy proceedings end in discontinuation, then the company continues to exist and it may function.

5 Tax

5.1 Does a restructuring or insolvency procedure give rise to tax liabilities?

In principle, an insolvency or restructuring procedure does not entail the emergence of special tax obligations. However, if a composition is concluded, depending on solutions employed therein (e.g. reduction of obligations), a correction of the tax return may prove necessary and, subsequently, re-calculation of the tax base and due tax may also be required.

6 Employees

6.1 What is the effect of each restructuring or insolvency procedure on employees?

Initiation of a restructuring procedure in itself does not lead to termination or dissolution of employment contracts. Obviously, a restructuring plan may predict a reduction of employment, but it is obtained by notice of termination of employment contracts (alternatively – mass layoffs).

Also, initiation of a restructuring recovery procedure or bankruptcy procedure in itself does not result in dissolution of employment relationships, although the administrator and receiver in this situation gain the possibility to terminate employment contracts through shorter periods of notice (against payment of extra severance pay). Claims for payment of remuneration for work are in principle also located higher in terms of the order of satisfaction. Restructuring or bankruptcy may also entail satisfying employees’ outstanding claims by the Guaranteed Employment Benefit Fund and joining the proceedings with such.

Claims for remuneration from a contract of employment in principle are not covered by a restructuring arrangement (unless employees consent thereto) and, therefore, in the composition they may not be reduced or spread into instalments.

7 Cross-Border Issues

7.1 Can companies incorporated elsewhere restructure or enter into insolvency proceedings in your jurisdiction?

As an EU member, in the scope of cross-border bankruptcies, Poland is bound by EU regulations.

In regard to Polish regulations, it is worth indicating that the competence of Polish courts covers restructuring cases if the main centre of the debtor’s fundamental operations (not necessarily the place of incorporation) is located in Poland, as well as when the debtor conducts business activity in Poland, is domiciled in Poland, or their office or assets are registered in Poland. It is also possible to conduct in Poland secondary restructuring proceedings related to the scope of an entrepreneur’s activities in Poland, while the main restructuring is conducted in the country where the debtor conducts their main operations.

Analogical principles apply to bankruptcy proceedings.

7.2 Is there scope for a restructuring or insolvency process commenced elsewhere to be recognised in your jurisdiction?

In principle, bankruptcy and restructuring procedures initiated and conducted in other countries are recognised in Poland, whereby if the main centre of the debtor’s fundamental operations is located in Poland, Polish courts have exclusive jurisdiction; hence, in such situations, restructuring or bankruptcy must be initiated before a Polish court. These rules do not apply if international agreements concluded by Poland or EU law provide otherwise.

7.3 Do companies incorporated in your jurisdiction restructure or enter into insolvency proceedings in other jurisdictions? Is this common practice?

If the main centre of the debtor’s fundamental operations is located in Poland, then the main bankruptcy or restructuring proceedings have to be conducted in Poland. It does not exclude a possibility of conducting a secondary procedure in another country if a part of the operations and assets are located there.
8 Groups

8.1 How are groups of companies treated on the insolvency of one or more members? Is there scope for co-operation between officeholders?

Neither the Restructuring Law nor the Bankruptcy Law contain specific regulations concerning bankruptcy or restructuring of a company belonging to a group (barring the provisions on public aid for restructuring). However, it is worth indicating the above-described risk of recognising as ineffective certain activities performed prior to initiation of restructuring or bankruptcy proceedings between affiliated companies.

9 Reform

9.1 Are there any proposals for reform of the corporate rescue and insolvency regime in your jurisdiction?

Due to the fact that the Restructuring Law and Bankruptcy Law were thoroughly amended on 1st January 2016, currently no new substantial amendment drafts exist.
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