



Czech Republic: Debt relief under the amended Czech Insolvency Act

On 1 June 2017, a significant and extensive amendment to the Czech Insolvency Act came into force which brought, among other things, changes to debt relief as a means of resolving insolvency.

The Insolvency Act in its previous manifestation determined that a debtor's debt due to business operations does not prevent the resolution of the debtor's bankruptcy by debt relief providing that the creditors of the corresponding receivables give their consent. Under the amended rules, the default assumption is that the creditors consent unless they expressly inform the court, along with their application for registration of their claims, that they do not agree with the

resolution of the bankruptcy by debt relief, giving reasons for their opinion.

Permission of debt relief

Another change concerns the proposal for the permission of debt relief. Under the current rules, the proposal for the permission of debt relief must be written and submitted on behalf of the debtor by an attorney-at-law, notary, court bailiff, insolvency trustee, or accredited person (whereas "*accredited person*" means a legal entity that has been granted accreditation by the Ministry of Justice for providing services in the area of debt relief under the Insolvency Act).

The remuneration for drafting and filing of the proposal for the permission of debt relief (including all related services) is due to the respective attorneys-at-law, notaries, insolvency trustees and court bailiffs. Its amount is limited to CZK 4,000 excluding

VAT (CZK 6,000 excluding VAT for joint debt relief for spouses). The remuneration also covers all steps related to submission of the proposal for the permission of debt relief, including consultations with the client as well as removing errors in the proposal. On the other hand, if the proposal for the permission of debt relief is processed by an accredited person (for example, a non-profit organisation in the form of a debt counselor or a civil counselor), the proposal is free of charge for the client. The aforementioned remuneration is not paid in cash by the client, but the party who draws up the proposal enters into the insolvency proceedings with a claim towards the estate.

Under the current rules, the insolvency trustee must withhold from the debtor's monthly payments an amount corresponding to his or her remuneration and reimbursement of his or her expenses for six months (to the detriment of all creditors), and deposit this amount in a special account.

Court hearing

Another substantial change related to debt relief is the replacement of the review meeting in the form of a court hearing by a report on the review. A formal review meeting will now only be convened upon the request of an absolute majority of registered creditors whose receivables (in terms of their amount) account for an absolute majority of all unsecured claims.

If the insolvency court does not approve debt relief, it need not automatically declare the debtor to be bankrupt. Bankruptcy is to be declared only in specific cases as defined in the Insolvency Act.

Finally, the Insolvency Act now explicitly enshrines the combination of a repayment schedule and the monetisation of the asset (or part of it) which may be permitted upon explicit request by the debtor. ■



KAROLINA NOVÁKOVÁ
Associate, bnt attorneys-
at-law s.r.o., Czech Republic



**A FORMAL
REVIEW MEETING
WILL NOW ONLY
BE CONVENED
UPON THE
REQUEST OF
AN ABSOLUTE
MAJORITY OF
REGISTERED
CREDITORS**

