

## **INSOL Europe/LexisNexis coronavirus (COVID-19) Tracker of Insolvency Reforms—Armenia**

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**Restructuring & Insolvency analysis: We look at the reforms to the insolvency law of Armenia prompted by the coronavirus (COVID-19) pandemic. Written by Makar Yeghiazaryan, Bankruptcy Manager, member of INSOL Europe, Managing Partner of Yeghiazaryan & Partners Law Firm.**

Many countries have suffered from the spread of coronavirus, not only because of the great number of infected people, but also from undertaking certain steps against the spread of virus. Almost everywhere, the economy has suffered a great deal—many businesses have had to stop their operations, and many employers have had to cut their employee numbers because of the decrease in business operation volume. Armenia is no exception.

The measures undertaken by the government against the spread of the coronavirus has led to amendments to legal regulations, in order to resolve the issues arising out of the current situation. Some laws were amended drastically, however the RA Law on Bankruptcy is yet to be amended, although draft amendments have been suggested to the RA National Assembly.

Until now, according to the RA Law on Bankruptcy:

‘in case there are grounds for declaring the debtor bankrupt as prescribed by Article 3 of this Law with respect to cash liabilities to the Republic of Armenia and community budgets (including taxes, duties, and other mandatory payments), the state or local self-government bodies shall be obliged to apply to the court with a claim of declaring the debtor bankrupt in the following cases and time limits: (a) the respective competent state authority: within six months from the moment of revealing the liability in connection with the delay of payment of taxes, duties, customs, and other mandatory payments or fines arising from administrative actions’.

In light of the negative economic consequences of the new coronavirus pandemic and the deteriorating solvency of economic entities, one of the RA National Assembly deputies suggested reforms to the RA Law on Bankruptcy.

According to the draft, the above-mentioned regulation will be amended as follows: (a) the respective competent state authority: within six months from the moment of revealing the liability in connection with the delay of payment of taxes, duties, customs, and other mandatory payments or fines arising from administrative actions, except when the amount of the claim does not exceed three million AMD.

The main reason for this is the decrease in turnover and in financial flows. As a result, shortfalls in the payment of obligations, including taxes, duties, customs duties, other fees or fines imposed by the administration, become objectively possible.

If the draft is adopted, the relevant competent state body will be released from the obligatory requirement to apply to the court with the demand to declare the debtor bankrupt unless the stated amount is exceeded.

The draft was suggested on 17 April 2020 and still needs to be discussed and approved by the RA National Assembly and for now it is impossible to predict when this addition to the law draft will come into force. This draft also suggests that this addition to the RA Law on Bankruptcy, if approved, enters into force 10 days after official publication and will be effective until 31 December 2021.

The duration of the new law is defined (ie is in force until 31 December 2021), as it is mainly connected with the impact of coronavirus on the economy and as soon as the virus has a less destructive effect on the economy, this proposed reform will have no further effect. According to the predictions of the RA National Assembly deputy, we will no longer be at risk of the virus and the economy will already be recovered by that time and there will be no place for the regulation to exist anymore.

As this is still at draft stage (ie it has not been approved by the National Assembly of the RA and no practical implementation as such exists), it is difficult to comment on the practical impact of the amendment. However, taking into consideration the overall impact of coronavirus on the economy, it is obvious that this amendment will release the state authorities from the additional court claim filings for bankruptcy regarding small debts, as they are mainly due to businesses being unable to operate under the measures adopted by the government and after these measures are over, those businesses might continue to operate and develop. This is also a huge support to businesses that potentially have the chance to recover after the coronavirus danger is over. At the same time, this will help employers to maintain their staff, as a result of which the state won't have higher unemployment rates.

In conclusion, this is a win-win regulation, as businesses will have a chance to recover and increase operation volumes, the state authorities won't have to file bankruptcy claims in the courts, the courts won't get overloaded and the state, where those businesses recover, won't suffer lower consumer spending due to a higher unemployment rate as a result of those businesses becoming bankrupt.

### **Further draft legislation**

Above is a summary of the legal regulation amendments in the field of the bankruptcy in the Republic of Armenia as of 10 May 2020. Since then, another RA Law on Bankruptcy amendment draft has been suggested to the RA National Assembly.

Until now, according to the RA Law on Bankruptcy "The debtor may be declared bankrupt by a court decision if the undisputed part of the claim exceeds a thousand times the minimum salary established by law", which is 1,000,000 AMD. However according to the amendment draft, this amount shall be changed to 2,000,000 AMD.

This amendment is also due to the decrease in turnover and in financial flows, as well as the fact, that as a result of the negative economic consequences of the new coronavirus epidemic the solvency of both legal entities and physical persons are deteriorating.

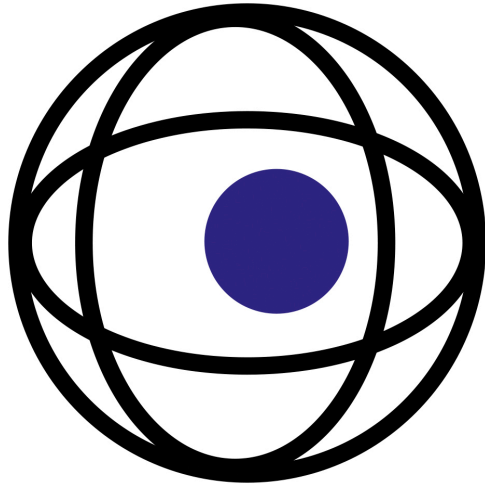
The draft was suggested on 25 May 2020 and was approved by the first reading in the RA National Assembly on 3 June 2020, but still needs to be approved by the second reading to come into force. This draft also suggests that this amendment to the RA Law on Bankruptcy, if approved, enters into force on the 10th day after the official publishing.

As this is still a draft and has not been approved by the National Assembly of the RA and no practical implementation as such exists, it is difficult to assess the practical impact of the amendment. However, taking into consideration the overall impact of COVID-19 on the economy, it is obvious that this amendment will release courts from additional court claims for bankruptcy regarding small debts, as they are mainly connected with the impossibility of physical persons and businesses to generate much income concomitant with the measures undertaken by the Government. This will also provide support to the businesses that potentially have chances to recover after the coronavirus danger is over and at the same time it will help employers to keep their staff which will help unemployment rates.

In conclusion, as in the case of the amendment to the RA Law on Bankruptcy introduced previously, this one is also a win-win regulation, as the physical persons and legal entities will have a chance to recover and increase income volumes after this virus crisis ends. The courts won't get overloaded by the bankruptcy claims, as their insolvency is mainly connected with the measures undertaken by the Government to fight against the spread of the virus, and the state won't get lower money circulation temps due to the higher unemployment rate as a result of bans imposed on the funds of physical persons/legal entities during the bankruptcy proceedings.

## **INSOL Europe/LexisNexis COVID-19 Tracker of Insolvency Reforms**

A tracker of insolvency reforms globally produced by LexisNexis in partnership with INSOL Europe is now available: [Coronavirus \(COVID-19\) Tracker of insolvency reforms globally](#).



# **INSOL EUROPE**

We look at various countries worldwide which are expediting reforms to their restructuring and insolvency laws, temporarily suspending onerous insolvency law provisions, increasing limits for statutory demands, suspending enforcement powers and introducing other measures to deal with the coronavirus crisis. As the situation is rapidly evolving with more countries adding new measures daily, you should contact local lawyers in the relevant jurisdiction to check the current measures in force.