

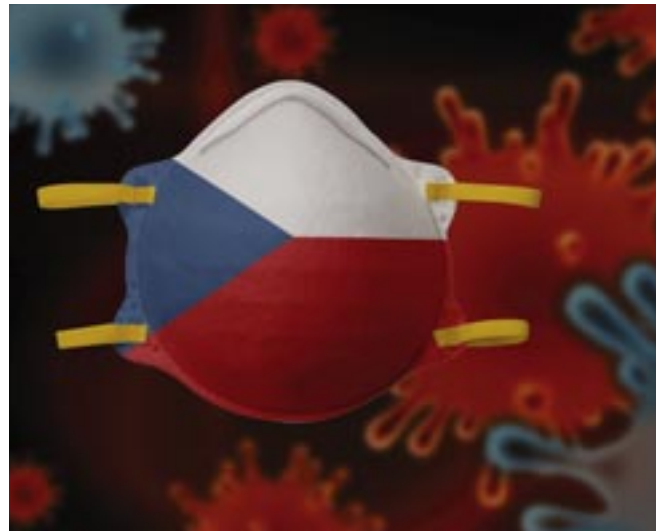
Czech Republic: Legislative development in a time of crisis



PETR SPRINZ
Partner, Havel & Partners,
Prague, Czech Republic



JIŘÍ RAHM
Senior Associate, Havel & Partners,
Prague, Czech Republic



The current crisis caused by the COVID-19 virus can be seen as a very abnormal situation. Measures adopted to prevent acceleration of the infection spreading may have a devastating impact on a number of companies that are healthy in normal circumstances.

For obvious reasons, the Czech Parliament adopted the new bill called *Lex Covid* and many others acts. Please find below a general overview of the new rules presented mainly from the perspective of entrepreneurs.

Extraordinary moratorium as a fast means of protection for a viable entrepreneur

The main objective of the extraordinary moratorium, in the drafting of which we participated along with other insolvency law experts, is to help them overcome the loss of available funds by temporarily restricting realisation of collaterals or the commencement of enforcement proceedings or execution. It should create a breathing space. However, a declaration of a moratorium also entails several

restrictions.

To declare an extraordinary moratorium the insolvency court should mainly check the formal aspects of the filed application. A debtor wishing to further extend an extraordinary moratorium will have to obtain consent by an absolute majority of their creditors.

The extraordinary moratorium is intended only for those debtors who face problems in connection with the COVID-19 pandemic and were not been bankrupt before the state of emergency was imposed.

Protection of the debtor's management

The *Lex Covid* brings a substantial change to the debtor's obligation to file an insolvency petition due to bankruptcy. This obligation will be suspended from the effective date of the adoption of the *Lex Covid* until the lapse of six months from the termination or cancellation of the pandemic emergency measure. However, this exemption is not applicable where bankruptcy had occurred before the extraordinary measure was adopted or where bankruptcy was not caused in connection with the pandemic.

Temporary limitation of creditors' rights to file an insolvency petition

Lex Covid introduces a substantial limitation to creditors' rights: without any exceptions, a creditor's insolvency petition cannot be filed until 31 August 2020.

Some important changes

The Parliament has inter alia also approved a new act, which allows, based on the debtor's request, the suspension of the payment of broadly defined credit loans (covering not only claims under loan agreements) until 31 October 2020. Simply said, the suspension has effect only on (i) credit loans agreed upon and drawn before 26 March 2020 or (ii) credit loans related to the acquisition of real estate or its development which were agreed upon before 26 March 2020 but not yet drawn. There are many exceptions to the general rule.

Conclusion

These days are full of news negative in tone. Therefore, these extraordinary amendments aim at relaxing a bit the mood of those affected by the pandemic and at putting the economy in motion again. Thus, *Lex Covid* can be regarded as a significant change in insolvency law despite its temporary nature. ■



These extraordinary amendments aim at relaxing a bit the mood of those affected by the pandemic

