

# Consultation on an effective insolvency framework within the EU

Fields marked with \* are mandatory.

## Introduction

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An appropriate insolvency framework is important for society at large and in particular for investors, creditors and debtors. It is an essential element of a good business environment and is therefore important for jobs and growth.

A good insolvency framework maximises the efficiency, predictability and effectiveness of insolvency proceedings. This makes it easier to trade, supports an effective credit system and ensures a favourable investment climate, in turn benefiting the wider economy.

Insolvency frameworks should provide a transparent, predictable and cost-effective set of rules that can be used to preserve and maximise the value of debtors' assets. The rules should make it possible, either to:

- save businesses (by restructuring the existing company or by selling it as a "going concern");  
or
- make it easier to liquidate a company and its assets if that company has not prospect of survival.

Efficient insolvency rules could also help increase the recovery rate of debts and avoid the build-up of non-performing loans in the financial system.

The Commission's Annual Growth Survey 2016 explicitly recognises the importance of *'well-functioning insolvency frameworks'*. These are *'crucial for investment decisions since they define rights of creditors and borrowers in the event of financial difficulties'*.

Conversely, inefficient and ineffective frameworks result in the discontinuation of viable businesses, lengthy procedures and a low rate of recovery. This often translates into significant problems for the Member States concerned and for the wider European economy. These problems may take the following forms:

- Unnecessary liquidation of viable businesses, resulting in a loss of productive capacity;
- *De facto* or *de jure* disqualification of failed entrepreneurs or the exclusion from economic life of indebted members of the public;
- Barriers to corporate lending and investment, including cross-border investment. Uncertainty or difficulties over realising value from distressed debt may be particularly pronounced in the case of cross-border lending and investments. This may increase the cost at which investors and creditors are willing to invest in or lend to cross-border borrowers.
- Difficulties for creditors in recovering value from distressed debt. This may contribute to persistently high levels of non-performing loans, which weigh on bank balance sheets and may constrain bank lending.

In the public consultation on a Capital Markets Union, insolvency laws were singled out as one of the key barriers preventing the integration of capital markets in the EU. Consultation respondents broadly agreed that both the inefficiency and divergence of insolvency laws make it harder for investors to assess credit risk, particularly in cross-border investments. Convergence of insolvency and restructuring proceedings would facilitate greater legal certainty for cross-border investors and encourage the timely restructuring of viable companies in financial distress [1].

**Focus on restructuring and a second chance:**

A clear and effective approach to debt restructuring can benefit both the borrowing and lending sides of the market. Businesses that are in temporary distress should be able to restructure and be saved if their business is viable. Member States' legal frameworks have a crucial role in creating the conditions for successful restructuring, whether within or outside formal insolvency proceedings.

To encourage entrepreneurial activity, entrepreneurs and managers of companies should not be stigmatised when honest business endeavours fail. Individuals should not be deterred from entrepreneurial activity or denied the opportunity for a 'second chance'. Similarly, managers of companies may benefit from clear rules on their disqualification over insolvency-related misconduct.

For consumers (i.e. individuals with debts of a non-professional nature), a possible second chance might give them the incentive to start consuming again and take up gainful employment without the stigma of insolvency burdening them for years on end.

This means that for individual debtors, whether entrepreneurs or consumers, the rules on how to discharge the remaining debt following bankruptcy are important. Any rules providing for debt discharge need to be carefully designed to prevent abuse and incentivise careful management of business debt from the outset.

As a result, in the Capital Markets Union Action Plan, the Commission announced its intention to propose a legislative initiative on business insolvency, including early restructuring and second chance. The legislative initiative seeks to address the most important barriers to the free flow of capital, building on national sets of rules that work well.

The Commission Communication '*Upgrading the Single Market: more opportunities for people and business*' states that the effects of a potential bankruptcy deter individuals from entrepreneurial activity. The prospect of a fresh start for bankrupt entrepreneurs encourages would-be entrepreneurs to start and scale-up new business activities. This creates a more beneficial environment for innovation.

### **Helping creditors (banks) to recover value in the event of insolvency**

The Five Presidents' Report on '*Completing Europe's Economic and Monetary Union*' identified insolvency laws as a key component of Financial Union. An effective insolvency framework should also contribute to the efficient management of defaulting loans and reduce the accumulation of non-performing loans on banks' balance sheets.

This position on insolvency reform was set out in the Commission Communication '*Towards the Completion of the Banking Union*' of 24 November 2015. Efficient insolvency frameworks would increase recovery rates and improve pricing of non-performing loans in the interest of developing a secondary market. Such loans would not then remain on banks' balance sheets for protracted periods of time, debts could be at least partially recovered and debtors could have a fresh start.

The Commission has examined national insolvency regimes as part of the European Semester, the EU's economic governance framework. Lengthy, inefficient and costly insolvency proceedings in some Member States were found to be a contributing factor to insufficient post-crisis debt deleveraging in the private sector and exacerbating debt overhang.

### **Objectives of this consultation**

This consultation asks about the key insolvency barriers. It focuses in particular on gathering views on:

- the efficient organisation of debt restructuring procedures;
- the rationale and the process for debt discharge for entrepreneurs (and its possible extension to consumers).

Beyond these two policy areas, the consultation also invites views on selected aspects of efficient and effective insolvency frameworks which may have particular importance for the Internal Market or the integration of capital markets. Such frameworks should help to maximise the value received by creditors, shareholders and other stakeholders.

The responses will be used to identify which aspects should form part of a legislative initiative [2] and other possible complementary action in this field. The responses will be taken into account alongside the results of an external economic study carried out on behalf of the Commission as well as other evidence and analysis. The results of the consultation are without prejudice to any potential future Commission proposal.

This consultation is run via the 'EU-Survey' online tool, which makes it easier to collect answers from the widest possible range of respondents. In addition to choosing from the pre-defined answers, respondents are encouraged to explain their views or add additional information or explanations in the free text boxes provided. Respondents can add additional information at the end of the consultation and/or can do so by clicking on the 'other' options and the boxes that follow. Alternatively, separate contributions can be sent to the dedicated mailbox.

[1] An Inception Impact Assessment which contains a detailed description of the problems found in this area, as well as the policy objectives and options for action is available on [http://ec.europa.eu/smart-regulation/roadmaps/docs/2016\\_just\\_025\\_insolvency\\_en.pdf](http://ec.europa.eu/smart-regulation/roadmaps/docs/2016_just_025_insolvency_en.pdf).

[2] The Commission Work Programme for 2016 announced a legislative initiative framing a new approach to business failure and insolvency.

## **I. Information about you**

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This consultation is addressed to the broadest public possible, as it is important to get views and input from all interested parties and stakeholders.

**\*1. Please indicate your role for the purpose of this consultation**

- Private individual
- Self-employed person
- Company
- Bank, credit institution, investment fund, financial institution
- Judge
- Insolvency practitioner
- Other legal practitioner
- Business adviser or business support organisation
- Public authority
- Academic
- Think tank
- Other

**\***

**Please specify**

NGO

**Name of your organisation (if applicable)**

COFACE (Confederation of Family Organisations in the EU)

**2. Is your organisation included in the [Transparency Register](#)?**

*(If your organisation is not registered, you can register [here](#). You do not have to be registered to reply to this consultation.)*

- Yes
- No

**If you are registered, please indicate your register ID Number:**

93283396780-85

**\*3. Have you had practical experience with insolvency proceedings?**

- Yes
- No

\*

**4. Please indicate the country where you are located:**

- Austria
- Belgium
- Bulgaria
- Cyprus
- Czech Republic
- Germany
- Denmark
- Estonia
- Greece
- Spain
- Finland
- France
- Hungary
- Croatia
- Ireland
- Italy
- Lithuania
- Luxembourg
- Latvia
- Malta
- Netherlands
- Poland
- Portugal
- Romania
- Sweden
- Slovenia
- Slovak Republic
- United Kingdom
- Non-EU country

**5. Please provide your contact information:**

\*

**First name**

Martin

\*Last name

Schmalzried

\*

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Belgium

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\*6. Please indicate your preference over the publication of your response on the Commission's website:

- Under the name given: I consent to publication of all information in my contribution and I declare that none of it is subject to copyright restrictions that prevent publication.
- Anonymously: I consent to the publication of all information in my contribution, except my name/the name of my organisation and I declare that none of it is under copyright restrictions that prevent publication.
- Please keep my contribution confidential (it will not be published, but will be used internally within the Commission)

*Please note that regardless of the option chosen, your contribution may be subject to a request for access to documents under [Regulation 1049/2001](#) on public access to European Parliament, Council and Commission documents. In this case, the request will be assessed against the conditions set out in the Regulation and in accordance with applicable [data protection rules](#).*

## II. Questions

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In general, an insolvency framework should ensure that viable businesses can be restructured and continue operating, while non-viable ones can be quickly liquidated. Over indebted individuals should also have access to insolvency proceedings and discharge provisions subject to certain conditions. Member States have in place different systems, some of which comply at least partially with these requirements and some of which do not. These differences may have an impact on the functioning of the internal market.

## 1. Scope

**1.1. Which measures should be taken to achieve an appropriate insolvency framework within the EU?** (choose all that apply)

- a) Preventive measures to enable the restructuring of viable businesses
- b) Measures to increase the recovery rates of debts in insolvency
- c) Measures to ensure the discharge of debts for entrepreneurs (individuals)
- d) Measures to ensure the discharge of debts for consumers
- e) Measures governing employees' rights in insolvency
- f) Measures ensuring the enforcement of debts
- g) Other measures
- h) No opinion

**Please explain**

a & b : Prevention is key, and leads to better recovery rates.  
c & d : apart from debt collection companies/professionals and non responsible creditors (who make more money when their clients face financial difficulties), all stakeholders are loosing money when discharge does not come quick enough.



**1.2. To what extent do the existing differences between the laws of the Member States in the areas mentioned below affect the functioning of the Internal Market?**

*(For example, differences affect the Internal Market when creditors or investors and debtors are located in different Member States and this has an impact on the recovery of debts, the legal certainty of transactions, the quantification of risks etc.)*

	To a large extent	To a considerable extent	To some extent	Not at all	No opinion
a) Preventive measures to enable the restructuring of viable businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b) Measures to increase the recovery rates of debts in insolvency	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c) Measures aimed to ensure the discharge of debts for entrepreneurs (individuals)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d) Measures to ensure the discharge of debts for consumers	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e) Measures governing employees' rights in insolvency	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f) Measures ensuring the enforcement of debts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g) Other measures	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Please explain

COFACE Members in Belgium have experience with problematic recovery of alimony or spouse support in case of an individual's insolvency when the former partner has left to another country. Such financial support can sometimes be vital in terms of revenue to enable the restructuring of the debt and requires complex legal proceedings.

Futhermore, many specific creditors does not seem to accept the insolvency regulation from another country, do not accept to discharge procedure: public authorities and administration have been mentioned (pensions,...)

**1.3. To what extent do the measures mentioned below have an impact on the creation and operations of newly established companies?**

	To a large extent	To a considerable extent	To some extent	Not at all	No opinion
a) Preventive measures to enable the restructuring of viable businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b) Measures to increase the recovery rates of debts in insolvency	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c) Measures to ensure the discharge of debts for entrepreneurs (individuals)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d) Measures governing employees' rights in insolvency	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e) Measures ensuring the enforcement of debts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f) Other measures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Please explain**

**2. Saving viable businesses in difficulty**

In general, an insolvency framework should ensure that viable businesses can be restructured and continue operating. However, the conditions under which a company is deemed viable and should be restructured or liquidated differ from Member State to Member State. In this consultation, the term 'restructuring' covers both restructuring as an existing company and the sale of a company as a going concern to another company. There is also a difference between the viability of a legal entity and that of a business contained within it or even spread across several legal entities.

The rules regulating restructuring procedures (including the contents of the restructuring plan and related procedural issues) have a crucial role in creating the conditions for successful restructuring, whether within or outside insolvency proceedings. There are major differences across Member States in the rules on the procedure for adopting a restructuring plan, including required majorities for its adoption and the rights of dissenting creditors.

Laws of Member States also differ on the standards applied by the courts when asking for a stay of individual enforcement actions (i.e. a suspension of the right to enforce a claim by a creditor against a debtor, also known as a 'moratorium') to be granted, when approving the plan and the possibility to challenge such approval. Moreover, under certain national insolvency frameworks, courts may have wide discretionary powers over the approval of the plan and possible changes to it, while under other laws these powers are rather more limited.

Rigid and impracticable rules may hinder the chances of adopting a restructuring plan. Restructuring viable businesses avoids unnecessary liquidation and thus helps safeguard the debtor's assets as a going concern, maximising value for owners and shareholders as well as for creditors. An efficient business restructuring procedure may also give equity investors a chance to recover the value of their investment. At the same time, restructuring procedures must be safeguarded against misuse and depletion of the assets in the process.

There are also significant differences between the criteria for opening insolvency proceedings. In certain Member States, insolvency proceedings may be opened only for debtors that are already affected by financial difficulties or are already considered insolvent. In others, proceedings can be opened for solvent debtors that anticipate facing insolvency in the imminent future. Such proceedings do not have the character of informal pre-insolvency proceedings. Further differences may also be found in insolvency tests (liquidity test, balance sheet test, over-indebtedness test) and in the obligation for a debtor to file for the opening of insolvency proceedings when insolvency occurs.

In a company, directors exercise corporate powers which are generally balanced with duties of care prohibiting wrongful trading. Some Member States have certain obligations in place for directors in the period before insolvency occurs and impose liability for any harm caused by continuing to operate when it was either clear or should have been foreseen that insolvency could not be avoided. The rationale for such provisions is to create appropriate incentives for early action through the use of voluntary restructuring negotiations. It may also encourage directors to obtain competent professional advice when financial difficulties occur and thus avoid insolvency.

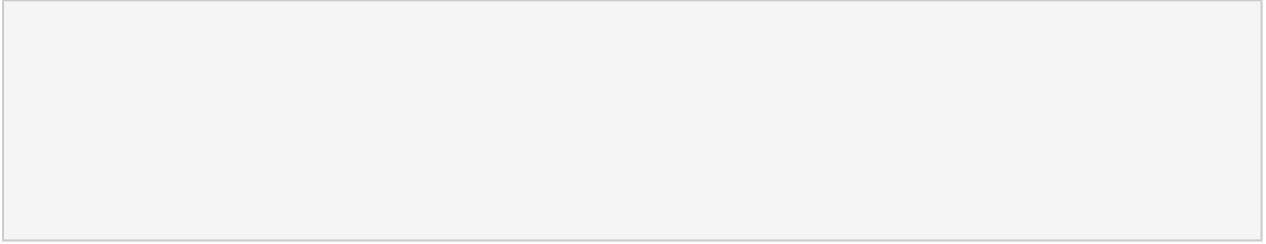
## **GENERAL QUESTIONS**

**2.1. To what extent do existing differences between the laws of the Member States in the areas mentioned below affect the functioning of the Internal Market?**

*(For example, differences affect the Internal Market when creditors or investors and debtors are located in different Member States and this has an impact on the recovery of debts, the legal certainty of transactions, the quantification of risks etc.)*

	To a large extent	To a considerable extent	To some extent	Not at all	No opinion
a) Measures to give access to a toolkit enabling fast restructuring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b) Measures to ensure the assessment of a debtor's viability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c) Measures to provide minimum standards in relation to the definition of insolvency	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d) Measures to lay down the duties of directors in companies in financial distress	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e) Measures to protect new financing given to companies that are being restructured	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f) Measures to clarify the position of shareholders of companies in insolvency or close to insolvency	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g) Measures to promote assistance to financially distressed debtors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h) Other measures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Please specify which other measures in national laws affect the functioning of the Internal Market.**



**2.2. What impact do the different types of measures mentioned below have on saving viable businesses?**

	Very strong impact	Considerable impact	Little impact	No impact at all	No opinion
a) Measures to give access to a toolkit enabling fast restructuring	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b) Measures to ensure the assessment of the viability of a debtor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c) Measures to provide minimum standards in relation to the definition of insolvency	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d) Measures to lay down the duties of directors in companies in financial distress	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e) Measures to protect new financing given to companies that are being restructured	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f) Measures to clarify the position of shareholders of companies in insolvency or close to insolvency	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g) Measures to promote assistance to financially distressed debtors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h) Other measures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Please specify which other measures have an impact on saving viable businesses.

### SPECIFIC QUESTIONS

**2.3. If creditors are situated in a different Member State(s) than their debtors, what impact does this have on the restructuring of the business of debtors as opposed to a purely national situation?**

- a) Very significant impact
- b) Significant impact
- c) Little impact
- d) No impact at all
- e) No opinion

**2.4. When should debtors have access to a framework of restructuring measures enabling them to restructure their business/liabilities?**

- a) Only once the debtor is already insolvent
- b) Before the debtor is insolvent, but where there is a likelihood of imminent insolvency (for example because the debtor has lost a major client)
- c) At any time
- d) At another moment in time
- e) No opinion

**2.5. Restructuring measures in which the courts are involved to a lesser degree (e.g. only for the confirmation of a restructuring plan) or not at all (e.g. an out-of-court process) should be available to:** (choose all that apply)

- a) Microenterprises (up to 10 employees)
- b) Small and medium-sized enterprises, excluding microenterprises
- c) Large enterprises
- d) Other
- e) No opinion

**2.6. Who should do the assessment of whether a debtor is viable and fit for restructuring?**

- a) The courts or external experts appointed by the courts
- b) The debtor or external experts chosen by the debtor
- c) The creditors or external experts chosen by the creditors
- d) Other persons or bodies than those listed in points a), b) or c)
- e) No one
- f) No opinion

**2.7. Is there a need for a common definition of insolvency at EU level?**

- a) Yes
- b) No
- c) Other
- d) No opinion

**2.8. Should debtors in the context of restructuring measures be able to keep control over the day-to-day operations of their business (so-called 'debtor-in-possession arrangements')?**

- a) Yes, without any supervision or control
- b) Yes, but subject to supervision from a suitably qualified mediator/ supervisor/ court
- c) Yes, but subject to conditions other than supervision from a suitably qualified mediator/ supervisor/ court
- d) No, debtors should not be able to keep control over the day-to-day operations at all
- e) Other
- f) No opinion

**2.9. When should debtors be able to ask for a stay of individual enforcement actions?**

- a) Only in formal insolvency proceedings
- b) In formal insolvency proceedings and in preventive/pre-insolvency restructuring procedures
- c) Other
- d) No opinion

**Please explain**

To solve over-indebtedness, an important measure is to limit the increase of the amount of the debt when debtors are facing financial difficulties, so it is important to limit all the fees, extra costs, penalties related to enforcement acts.

**2.9.1. For how long should the enforcement of actions of individual creditors be stayed once the restructuring attempts are ongoing?**

- a) 2-3 months, without the possibility of renewal
- b) 4-6 months, without the possibility of renewal
- c) 2-3 months, with the possibility of renewal in certain circumstances
- d) 4-6 months, with the possibility of renewal in certain circumstances
- e) Any time limit set by the court subject to the fulfilment of certain conditions
- f) Other
- g) No opinion

**2.9.2. Should an individual creditor be allowed to ask the court to lift the stay granted to the debtor?**

- a) Yes, in all cases
- b) Yes, subject to certain conditions
- c) No
- d) Other
- e) No opinion

**2.10. Should a restructuring plan adopted by the majority of creditors be binding on all creditors provided that it is confirmed by a court?**

- a) Yes, including on secured creditors
- b) Yes, but secured creditors should be exempted
- c) No
- d) Other
- e) No opinion

**2.10.1. Should a 'cross-class cram down' (i.e. the confirmation of the restructuring plan supported by some classes of creditors in spite of the objections of some other classes of creditors), be possible?**

- a) Yes, in all cases
- b) Yes, but subject to certain conditions
- c) No
- d) Other
- e) No opinion

**2.11. Should financing necessary for the implementation of a restructuring plan/ensuring current operations be protected if the restructuring subsequently fails and insolvency proceedings are opened?**

- a) Yes, always
- b) Yes, but only if agreed in the restructuring plan and confirmed by the court
- c) No, never
- d) Other
- e) No opinion

**2.12. Should directors of companies be incentivised to take appropriate preventive measures if companies are in distress but not yet insolvent, for example by being able to avoid related liability?**

- a) Yes
- b) No
- c) Other
- d) No opinion

**2.13. Should Member States be encouraged to take specific action to help debtors in financial distress, such as setting up special funds or insurance systems covering the provision of cheap and accessible restructuring advice, possibly subject to certain conditions?**

- a) Yes, for all debtors
- b) Yes, but only for SMEs
- c) Yes, but only for SMEs and individuals
- d) Yes, but only for individuals
- e) No
- f) Other actions
- g) No opinion

### **3. Second chance**

The Competitiveness Council in May 2011[3] invited Member States to promote a second chance for entrepreneurs by limiting, where possible, the discharge period and enabling debt settlement for honest entrepreneurs once they are insolvent. An 'honest' failure is a case in which the business failure occurred through no obvious intentional fault of its owner or director, i.e. it was honest and above-board. This would be contrary to cases in which the bankruptcy was fraudulent, for example where the debtor transferred its assets outside the jurisdiction, made an advance payment to a single creditor, accumulated excessive private expenses, etc.

An important element to support an effective second chance regime is the 'time to discharge'. This is the time from when an entrepreneur enters into insolvency proceedings to when he/she can effectively restart an entrepreneurial activity. Currently, the discharge time varies significantly from country to country. In some countries, honest entrepreneurs in bankruptcy are automatically granted a discharge immediately once liquidation of the assets is finished. In others, bankrupted entrepreneurs have to apply for a discharge, while in some countries they cannot obtain discharge at all.

Furthermore, the procedures to release consumers from a 'debt trap' vary significantly between Member States. In some countries, there is no bankruptcy or debt settlement procedure for consumers. In others, a general insolvency regime with some changes applies to consumers.

[3] Council of the European Union, Competitiveness (Internal Market, Industry, Research and Space), Brussels, 30 and 31 May 2011. Press release available at:

[https://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/intm/122359.pdf](https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/intm/122359.pdf).

### **3.1. Should honest debtors (entrepreneurs and consumers) who are over-indebted be offered the chance to restructuring their debt?**

- a) Yes, entrepreneurs (individuals) as well as consumers
- b) Only entrepreneurs (individuals) for debts related to their professional activity
- c) Only consumers
- d) Neither entrepreneurs (individuals) nor consumers
- e) Other options
- f) No opinion

## Please explain

Remark :The concept of honesty is essential to avoid abuses. Nevertheless, it means a clear and operational definition, objective criteria and indicators, AND CONTROL for ALL CASES.

A cost/benefit analysis is essential to verify that the cost of « abuses » will not exceed the cost of the necessary control ex-ante or covering the expenses of abuses ex-ante. Another option (to be explored) might be to give to ALL the access to the restructuring of their debt, but to announce that any future request to use it again will be conditioned to a strict control of non organised insolvency - this second option limits the control to a much reduced sample of situations.

COFACE recommend on all issues related to debt to forget everything about the “past solutions” developed to deal with financial difficulties to repay credits and debts. In particular for individuals, to say it in few words, the punitive approach for bad payers is based on a long tradition of regulations dedicated to be dissuasive on the use of credit or debts, implementing a large range (a result of overflowing creativity) of humiliations and blames (standing naked on the public square, stoning,...). Our modern society, which use personal credit as a key tool to support economic growth, has to reinvent the way to treat efficiently the various situations of insolvency.

### 3.1.1. To what extent do existing differences between the laws of Member States in the area of second chance affect the functioning of the Internal Market?

*(For example, differences affect the Internal Market when creditors or investors and debtors are located in different Member States and this has an impact on the recovery of debts, the legal certainty of transactions, the quantification of risks etc.)*

- a) To a large extent
- b) To a considerable extent
- c) To some extent
- d) Not at all
- e) No opinion

### 3.2. Should over-indebted individuals have access to free or low cost debt advice?

- a) Yes, entrepreneurs (individuals) and consumers, possibly subject to certain conditions
- b) Only entrepreneurs (individuals) for debts related to their professional activity, possibly subject to certain conditions
- c) Only consumers, possibly subject to certain conditions
- d) Neither entrepreneurs (individuals) nor consumers
- e) Other options
- f) No opinion

Please explain what particular conditions, if any, should be attached to such access.

Remark 1 :

As already mentioned, the traditional tools to face arrears and defaults on payments generate extra costs, financial penalties, the “never ending costs related to debt recovery” that lead to a multiplication of the debt... which can be perceived as a PUNITIVE approach, while people, in a large majority, are facing a life accident (income & job loss, illness, divorce,...).

This “old fashion approach” does not lead to any benefit, considering that the majority of these persons are willing to repay, but aren’t able to for a uncertain period of time. On the contrary, this approach exacerbates the problem via the debt multiplier effect it achieves.

Remark 2 :

If over-indebtedness is to be considered as a social scourge, the punitive approach is to be dedicated to a limited segment of O-I persons that ARE NOT WILLING to repay their debts, but who have the means to do it.

For the large majority of the O-I persons, this punitive approach should be transformed to a solution oriented approach that should include:

1. the possibility of a moratorium;
  2. the possibility to implement an early detection of the difficulties before it becomes a too heavy situation (French notion of “vulnerable customers” - Loi Lagarde)
  3. the immediate end of costs related to debt collection proceedings
- Income conditions of the O-I individual are necessary to discriminate between “free / costly” services.

Free debt advice is necessary for people with low-incomes, when disposable income is not sufficient to cover the incompressible expenditures to live in dignity.

Remark 3 :

“Protection of dignity” is a notion that should be related to human economical right protection.

The lack of a clear method to define what income should be fixed for the living conditions of indebted individuals (households) is ONE of THE reason that make debt advices, debt mediation very costly. Individualized negotiation between a debtor and his/her creditors is a very long process, and it is even more useless when the real financial contributive capacity is low.

A key tool to GAIN TIME AND EFFICIENCY is to elaborate a method (reference budget is an excellent one), at national level, by a commission where all the stakeholders are fairly represented, to agreed a method in which the households budget will be processed to calculate the income available for creditors.

The benefits are :

- a gain of time in the negotiation process,
- reduced administrative costs for the creditors (in particular when repayments are going to be low)
- a protection of a minimum standard for a living, adaptable to each households (composition, age of the children,...), and related to national / regional specificities and standards (cost of rent apartment, public transport cost,...)
- to become the threshold for moratorium period

### 3.3. Should a full discharge of debts, possibly subject to certain conditions, be offered to all over-indebted individuals provided they are ‘honest’ debtors?

- a) Yes, to entrepreneurs (individuals) and consumers
- b) Only to entrepreneurs (individuals) for debts related to their professional activity
- c) Only to consumers
- d) Neither to entrepreneurs (individuals) nor to consumers
- e) Other options
- f) No opinion



## Please explain

From a macroeconomic point of view, the key question is to check if a never ending over-indebted situation brings any benefit to the society ? And if it is worth maintaining it who does it really benefit?

In the case of a negative answer to this first question, the second relevant question is to check if the "full discharge of debts" is THE solution for the issues encountered by the various stakeholders, or at least represents the "best compromise" to be found among them.

Then, what are the main issues :

For the creditors... : inefficient administrative procedure (costs are higher than amounts collected)

For the debtor (household) : no incentive to increase income (official), diminished self-esteem, bad health (care), bad mental health, ...

For the public authority (broad meaning) : judicial court costs, social support, public debt advice, reduced tax on income, ... reduced tax on consumption...

### 3.3.1. Should the test of 'honesty' be made the same across all EU Member States?

- a) Yes
- b) No
- c) No opinion

### What should be the substance of such test? (please explain)

"Honesty" should be the default option.  
Dishonesty should be proven based on irregularity or offence

**3.3.2. What should be the maximum discharge period for honest debtors who cannot repay their debts (in other words, what should be the period after which such debtors would be completely discharged from debt, as long as they meet the obligations imposed by national laws)?**

- a) 1 year or less
- b) 3 years
- c) 5 years
- d) More than 5 years
- e) Other
- f) No opinion

**Please explain**

This period seems to be based on a very pragmatic practice of some EU countries, which had longer period, but have learned that it was not effective (Netherlands, Norway ..)

**3.3.3. . In the case of debtors that are insolvent, should a full discharge be conditional on the repayment of a certain amount of debt?**

- a) Yes
- b) No
- c) Other options
- d) No opinion

**3.3.4. Which special types of debt should be excluded from discharge? (choose all that apply)**

- a) Tort claims
- b) Fines
- c) Child support
- d) Tax and other public liabilities
- e) Other types of debt
- f) No opinion

### Please specify

As a family association, COFACE stresses that social benefits (including child support) should be excluded from revenue being taken by creditors. However, COFACE prefers to opt for exclusions of revenue based on principles of human dignity and human rights, which may exclude other forms of revenue from debt servicing, even beyond child support.

Many COFACE members have family budget models and tools for measuring typical household expenditures. Such tools should be used as a reference to define what "human dignaty" is and to determine how much of a family's income can be used to service debt in case of over-indebtedness/insolvency.

### 3.4. If it is decided that the discharge of debts should be offered to all individuals, whether entrepreneurs or consumers, should the conditions for the discharge be the same?

- a) Yes
- b) No, the conditions applicable to entrepreneurs should be stricter than those applicable to consumers
- c) No, the conditions applicable to consumers should be stricter than those applicable to entrepreneurs
- d) Other options
- e) No opinion

#### 3.4.1. Please explain

The reasons for a single procedure include the need for simplicity of understanding, of implementation, of control...  
COFACE is unsure whether real differences exist in the needed level of protection that justify difference of treatment.

## 4. Increasing the efficiency and effectiveness of the recovery of debts

The efficient and effective recovery of debts depends on many factors. The recovery rates of debts may depend on:

- the effectiveness of insolvency proceedings;
- their length;
- the specialisation of the people dealing with them;
- the qualification of the directors of distressed companies.

The recovery rate of debts also has an impact on high levels of non-performing loans in the EU.

The laws of Member States differ significantly on the priority of claims in insolvency. This has an impact on how insolvency proceedings are run and how debts are recovered. Laws also differ on possibilities for avoiding contracts detrimental to companies and creditors. Differences concern conditions under which a detrimental act can be avoided (avoidance actions) and the period within which such acts can be challenged.

Also, the laws of Member States have different rules on insolvency practitioners themselves, namely the qualifications and eligibility for their appointment and also their licensing, regulation, supervision, professional ethics and conduct. The questions related to insolvency practitioners concern any mediators or supervisors engaged in the insolvency process. Moreover, in most Member States, insolvency proceedings are administered by a judicial authority, often through commercial courts, courts of general jurisdiction or through specialised insolvency courts. Sometimes judges have specialised knowledge and responsibility for insolvency matters, while in other cases insolvency matters are just one of a number of wider judicial responsibilities of the courts.

There is currently no rule at EU level which ensures that directors who have been disqualified in one Member State, e.g. because of fraudulent behaviour, are prevented from setting up a new company or from being appointed as director of a company in another Member State. This means that disqualified directors can easily move from one Member State to another and manage companies in the EU even if they were not allowed to, at least for a certain period of time, in the Member State that disqualified them. The European Commission supports cross-country access to information about whether directors have been disqualified. The Commission will establish a decentralised system to interconnect insolvency registers. Under this system, Member States are invited, in accordance with Article 24(3) of Regulation (EU) 848/2015, to include in their national insolvency registers documents or additional information such as insolvency-related disqualifications of directors.

## **GENERAL QUESTIONS**

**4.1. To what extent do existing differences between the laws of the Member States in the areas mentioned below affect the functioning of the Internal Market?**

*(For example, differences affect the Internal Market when creditors or investors and debtors are located in different Member States and this has an impact on the recovery of debts, the legal certainty of transactions, the quantification of risks etc.)*

	To a large extent	To a considerable extent	To some extent	Not at all	No opinion
a) Minimum standards on the ranking of claims in formal insolvency proceedings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
b) Minimum standards on avoidance actions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
c) Minimum standards applicable to insolvency practitioners/mediators/supervisors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
d) Measures providing for a specialisation of courts or judges	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
e) Measures to shorten the length of insolvency proceedings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
f) Measures to prevent disqualified directors from starting new companies in another Member State	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g) Other measures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Please explain**

**4.2. Which measures would contribute to increasing the recovery rates of debts? (choose all that apply)**

- a) Minimum standards on the ranking of claims in formal insolvency proceedings
- b) Minimum standards on avoidance actions
- c) Minimum standards applicable to insolvency practitioners/mediators/supervisors
- d) Measures providing for a specialisation of courts or judges
- e) Measures to shorten the length of insolvency proceedings
- f) Measures to prevent disqualified directors from starting new companies in another Member State
- g) Other measures
- h) No opinion

**Please explain**

- national common method to calculate the households budget capacity to contribute to debt payment (save time in amicable and non amicable proceedings)

- to freeze and strictly limit the level of the various charges/penalties related to debt collection proceedings.

**SPECIFIC QUESTIONS**

**4.3. Which claims should have priority in insolvency proceedings (i.e. be satisfied first from the proceeds of the insolvent estate)? (choose all that apply)**

- a) Secured creditors should be satisfied in principle before all other creditors
- b) Secured creditors should be satisfied before unsecured creditors but not before privileged creditors such as employees and/or tax and social security authorities
- c) Tort claims should have a higher priority than other unsecured claims
- d) Other ranking of priorities
- e) No opinion

**4.4. What minimum standards should be harmonised for ‘avoidance actions’?** (choose all that apply)

- a) Rules on the types of transactions which could be avoided
- b) Rules on ‘suspect periods’ (periods of time before insolvency when a transaction is presumed to be detrimental to creditors)
- c) Other rules
- d) No opinion

**4.5. In what areas would minimum standards for insolvency practitioners help to increase the efficiency and effectiveness of insolvency proceedings?** (choose all that apply)

- a) Licensing and registration requirements
- b) Personal liability
- c) Subscribing to a professional liability insurance scheme
- d) Qualifications and training
- e) Code of ethics
- f) Other
- g) No standards should be harmonised
- h) No opinion

**4.6. Which additional minimum standards, if any, should be imposed on insolvency practitioners specifically dealing with cross-border cases?** (choose all that apply)

- a) Relevant foreign language knowledge
- b) Sufficient human and financial resources in the insolvency practitioner’s office
- c) Pre-defined period of experience
- d) Others
- e) No additional standards are needed compared with those relevant for domestic insolvency cases
- f) No opinion

**4.7. What are the causes for the excessive length of insolvency proceedings?** (choose all that apply)

- a) Judicial activities concerning the supervision or administration of insolvency proceedings
- b) Delays in the liquidation of the debtor’s assets
- c) The time taken to obtain final decisions on cases concerning the rights and duties of the debtor (e.g. claims, debts, disputed property in goods)
- d) A lack of promptness in exercising creditors’ rights
- e) Lack of electronic means of communication between the creditors and relevant national authorities, such as for the purposes of filing of claims, distance voting etc.
- f) Other
- g) No opinion

**4.8. Would a target maximum duration of insolvency proceedings — either at first instance or including appeals — be appropriate?**

- a) Yes
- b) Yes, but only for SMEs
- c) No
- d) Other possibilities
- e) No opinion

**4.9. What incentives could be put in place to reduce the length of insolvency proceedings? (please explain)**

**4.10. When disqualification orders for directors are issued in one Member State (i.e. the ‘home State’), they should:**

- a) be made available for information purposes via the interconnected insolvency registers so that other Member States are informed
- b) automatically prevent disqualified directors from managing companies in other Member States
- c) not automatically prevent disqualified directors from managing companies in other Member States, but make them subject to intermediary steps (e.g. a court order)
- d) Other options
- e) No opinion

**4.11. Directors disqualified in one Member State (home State) should be prevented from managing companies in other Member States (host States): (choose all that apply)**

- a) Always
- b) Only for the duration applicable to equivalent disqualification orders in the host State
- c) Only in the same or similar sector of activity
- d) Never
- e) Other options
- f) No opinion



**4.12. Which measures would contribute to reducing the problem of non-performing loans? (choose all that apply)**

- a) Measures to improve the effectiveness of insolvency proceedings
- b) Measures enabling the rescue of viable businesses
- c) Measures to provide user-friendly information about national insolvency frameworks
- d) Measures to ensure a discharge of debts of entrepreneurs (individuals)
- e) Measures to ensure a discharge of debts of consumers
- f) Other measures related to insolvency
- g) Measures unrelated to insolvency (e.g. enforcement of contracts)
- h) No opinion

**Please explain**

Remark : credit insurance and debt collection companies.

On credit insurance, one idea would be to separate the risk from the price of a credit/loan, and transfer it into a credit insurance product. In this way, consumers facing situations of overindebtedness due to common risks such as sudden illness, divorce, death or loss of employment, could benefit from an insurance product which would enable partial or full repayment of the loan (either during a defined period of time, or for the full duration of the loan).

With regards to debt collection companies, many companies sell their "bad debts" to debt collection companies. This practice is creating different effects that potentially increase and aggravate the debt issues. The creditor does not propose to its customer/debtor the "discount" they apply to their debt when selling it to a debt collection company;

- debt collection companies are perceived as negative actors with dubious practices including psychological and physical intimidation in many countries where the debt collection activity is not strictly regulated AND controlled;

- debt collection companies base their business model on the existence of DEBTS and on the number of "individual repayments" it can generate with a client.

Therefore, its economic rationality is to increase as much as possible the cost of the repayments and the duration of the proceedings.

- because of that, to increase the effectiveness of debt recovery, one should
- a) strictly limit the cost of debt collection to reflect the "real costs"
  - b) to impose a 'not-for-profit' model for debt collection companies

**5. Additional comments**

**Are there any additional comments you wish to make on the subject covered by this consultation?**

COFACE, in cooperation with EFIN (of which COFACE is a Member), has collected some cases of personal insolvency with cross-boarder dimension in different EU countries. They have been included in the attached document;

**You can also send a separate written contribution by uploading your document here:**

[33ed6b3c-ee59-401c-8429-559a9e1a3649/personal\\_insolvency\\_cases\\_with\\_cross\\_boarder\\_dimension\\_](https://ec.europa.eu/justice/civil-coop/33ed6b3c-ee59-401c-8429-559a9e1a3649/personal_insolvency_cases_with_cross_boarder_dimension_)

**Contact**

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