

NJORD Estonia explains: Restructuring – what is it?

The Reorganisation Act defines restructuring (legal term reorganisation) as follows: “*The reorganisation of an enterprise means the application of a set of measures in order for an enterprise to overcome economic difficulties, to restore its liquidity, improve its profitability and ensure its sustainable management.*” Not the worst definition, but still might be quite confusing.

To put it simply – with restructuring proceeding, a business gets the opportunity to **transform the claims** of their creditors and avoid bankruptcy. For a short period of time (up to 60 days as of now), the business receives **protection from court against the creditors**, but during that time the management board, in cooperation with the **restructuring adviser**, has to put together a **restructuring plan** and get the majority of the creditors to approve it.

The transformation of claims in restructuring proceeding means that the company can at the same time and amongst other things:

1. reduce – e instead of paying 100 000 euros as claimed, they only pay back 75 000 euros; and
2. expiate – e instead of paying the claim now, they pay it back over the next two years.

To reduce and expiate the claim are two of the most common ways to transform a claim and they are described in detail in the restructuring plan. In addition to transformation of claims, the restructuring plan has to include other elements required by law.

The court's protection against the creditor's claim means in simply that during the restructuring proceedings the claim cannot be collected.

Of course, you can't get carried away by transformation of claims, because firstly, the business has to convince the court that it can be restructured at all and secondly a majority of creditors, who have to own 2/3 of the overall claim, have to approve the restructuring plan. Neither the court nor the creditors generally want to approve a restructuring plan, that reduces the claim too much or expiates them for too long.

But why should the creditors agree with the reduction of their claims in the first place? Find out in our *next articles*.

In December of 2017, NJORD Law Firm will publish several articles in which we will explain in a simplified way what restructuring is and what happens during restructuring proceedings. If you want to know more about restructuring, we recommend you contact your lawyer or attorney. We at NJORD Law Firm are also always happy to help.



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