1. Concept and Purpose of Liquidation

Liquidation proceedings are legal procedures aimed at terminating insolvent business entities without legal succession. Their primary purpose is to satisfy creditors in accordance with Act XLIX of 1991 on Bankruptcy Proceedings and Liquidation Proceedings (the Bankruptcy and Liquidation Act), in the order and manner prescribed by law.

2. Who May Initiate Liquidation?

Liquidation proceedings may be initiated at the request of the debtor (company), a creditor, the liquidator, the company court acting ex officio, or a court acting in criminal proceedings.

3. Content of a Creditor’s Application

If the proceedings are initiated by a creditor, the application must specify the legal basis of the claim, the due date, and the reasons why the debtor is considered insolvent. Upon the court’s request, the debtor must declare within 8 days whether the debt is acknowledged and whether a payment extension is requested. The court may grant a payment extension of up to 45 days.

4. Establishment of Insolvency

The court establishes insolvency if the debtor fails to pay within 20 days following the due date without disputing the debt, fails to settle the debt despite a creditor’s demand, or fails to comply with a final court decision, enforcement is unsuccessful, and creditor claims remain unsatisfied despite a bankruptcy settlement.

5. Main Stages of Liquidation Proceedings

After the insolvency decision becomes final, the court immediately appoints the liquidator and publishes the decision in the Company Gazette. Within 30 days, the debtor must hand over financial, tax, asset, employment, litigation, and contract documentation to the liquidator. Creditors must register their claims within 40 days. The liquidator records and classifies claims, enforces receivables, and liquidates assets. The debtor and creditors may conclude a settlement at any time during the proceedings, subject to court approval. If no settlement is reached, the court decides on termination, costs, and satisfaction of creditor claims based on the closing balance sheet and asset distribution proposal.

6. Secondary Liability of the Managing Director

If it is established that the managing director failed to act in the interests of creditors after the onset of insolvency, the court may impose secondary liability, potentially extending to the managing director’s private assets.

7. Criminal Law Consequences

The liquidator may file a criminal complaint if there is suspicion of a criminal offence, such as asset stripping, fraud, or breaches of accounting regulations.

8. Duration

Under the Bankruptcy and Liquidation Act, liquidation proceedings may last up to a maximum of two years.

Practical Advice

Liquidation is a strict, deadline-driven legal process where every day matters. Early professional involvement may reduce losses and, in certain cases, may even enable the preservation of the company.