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Austria **Living in a Debtor's Paradise? The New EU Directive on Restructuring and Insolvency**

On 20 June 2019, the European Union adopted a EU-wide legal framework on the restructuring and insolvency of companies. Partner Thomas Trettnak outlines the main objectives of the new Directive as well as the issues that need to be resolved before its implementation.

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Belarus **Changes in Copyright Law**

On 15 July 2019, the Belarusian parliament adopted multiple amendments to Belarusian copyright law. Some have already come into force this year while others will not become effective until 2020. Sergei Makarchuk summarizes the recent amendments and their impact.

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Bulgaria **Amendments to the Anti-Money Laundering Act**

Partner Boyko Gerginov discusses the recent adoption of amendments to the Anti-Money Laundering Act. Some of them aim to transpose the Fifth Anti-Money Laundering Directive (Directive (EU) 2018/843) into Bulgarian law.

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Czech Republic **Dawn Raid Threats in the Digital Era**

David Kučera and Michal Horký explain how digitalisation has changed the way dawn raids are conducted by competition authorities. They mainly focus on the disadvantages for companies posed by digital environments.

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Hungary

New Amendment Prevents Contractors from Blocking Occupancy Permit

András Fenyőházi and Bence Rajkai present a new amendment to the Hungarian Civil Code regarding the handover of a site in a construction project. The previous rule allowed contractors to block occupancy permits from being obtained. As this was often abused, a new regulation was needed.

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Romania

The Payment Services Directive in Romania

Mirela Nathanzon summarizes new Romanian Law No. 209/2019 based on the European Payment Services Directive (Directive (EU) 2015/2366). After it was transposed into Romanian legislation in November 2019, the new law will come into force before the year is over.

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Living in a Debtor's Paradise? The New EU Directive on Re- structuring and Insolvency

Getting a second chance and bringing a business back to life with the help of effective restructuring procedures seems uncontroversial throughout the EU. However, there was until recently no EU-wide legal framework for such procedures. After more than two years of negotiations, the EU Directive on Restructuring and Insolvency was finally adopted on 20 June 2019. There are major concerns that it will be too favourable to debtors. One thing, however, is clear: during the implementation process to be completed by 17 July 2021, lots of other issues and details will have to be brought to the table.

Aims of the Directive

What the EU legislator had in mind during the adoption process seems obvious: everyone involved benefits from restructuring a business and keeping the know-how, jobs and general structure alive rather than liquidating the business's assets. A European-wide harmonization of these procedures not only provides legal certainty for cross-border investments but also prevents forum shopping for jurisdictions with more efficient procedures that provide a truly fresh start for entrepreneurs. Through all this, the directive's aim is to ensure the proper functioning of the internal market.

When does it all start?

Entities wishing to benefit from these new procedures if they are in financial difficulties still have to be viable and cannot be insolvent. In fact, in order to be able to initiate a procedure,

there must be a likelihood of insolvency. When exactly this is the case has to be defined by the national legislator. In the Austrian legal system, there are already certain criteria which lead to different legal consequences. The most prominent examples include the duty to file for insolvency under the insolvency code (*Insolvenzordnung*) in case of impending insolvency (*drohende Zahlungsunfähigkeit*) and the need for reorganisation under the Business Restructuring Act (*Unternehmensreorganisationsgesetz*) where the equity ratio deteriorates materially and on a lasting basis. However, it is still unclear how the definition of the likelihood of insolvency will relate to these statutory facts.

A chance to improve current legislation?

The latter reorganisation procedure is hardly ever used in practice, since it does not seem to provide enough benefits for the debtor. There is, for example, no moratorium on the enforcement of creditors' claims during the restructuring period, whereas under the directive the debtor can apply to the court to obtain one. During this period, mandatory insolvency filing rules for directors will be suspended as well. What is more, this comes with a more general protection against the enforcement of *ipso facto* clauses, meaning that suppliers with contractual rights to terminate the supply contract solely based on the insolvency will not be able to invoke these rights. Therefore, it remains to be seen whether amendments of national laws will be necessary in Austria.

The restructuring plan

The debtor, and – if national legislation so determines – creditors and the restructuring administrator, can submit a restructuring plan. Voting is open to affected parties, i.e. creditors but also

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workers and equity holders whose interests are directly affected by the restructuring plan.

A major difference to Austrian law is the mandatory division of creditors into classes according to their commonality of interest; for example, the division into secured and unsecured creditors. There is also no minimum quota that has to be guaranteed in the plan. This ultimately represents the second chance and a fresh start for the debtor. However, currently, under the Austrian insolvency code, a quota is necessary and usually amounts to 20%, rising to 30% for a reorganisation in self-administration. This no quota requirement is balanced out by the seemingly high threshold for consent to the restructuring plan, which can be set by each Member State at up to 75% of votes. Generally speaking, the consent of all classes is needed, except when a cross-class cram-down takes place.

Various outcomes for the restructuring plan

If the restructuring plan is not approved in every voting class, it may under certain circumstances be confirmed by a judicial or administrative authority upon the proposal of a debtor or with the debtor's consent, and become binding upon dissenting voting classes. This can ensure that promising restructuring processes are not torpedoed by particular creditors. There is even the possibility for Member States to allow a debt-to-equity-swap, which could ultimately entail the takeover of the company against the will of shareholders, to be included into the plan.

Of course, the court can also decline to confirm the restructuring plan if there is no reasonable prospect for the future viability or the prevention of insolvency of the business.

But what about the creditors' interest?

As a counterpart to many provisions ensuring the benefits for the debtor and the efficiency of the whole procedure, there is the guiding principle that all restructuring measures have to comply with the *best-interest-of-creditors test*. The test is only passed and the plan confirmed by the court if no dissenting creditor would be worse off under the plan than in a normal ranking of liquidation priorities in national insolvency or restructuring proceedings.

We will have to see what the future brings.

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Changes in Copyright Law

The Belarusian parliament adopted amendments to the Copyright Law of the Republic of Belarus (the "**Amendments**") on 15 July 2019. Several of the Amendments came into force on 27 July 2019; however, many key Amendments will not come into force until 27 May 2020. The Amendments have improved the practical application of the copyright regulations and brought the regulations into line with the needs of society and the international obligations of Belarus regarding the rights of disabled persons.

What's new?

Free use of a work in education and by persons with disabilities

The Amendments allow works to be used for educational purposes without restriction. However, it is mandatory to specify the author and the source for the borrowing of the work.

In addition, the Amendments expand the list of cases where a work may be used without restriction by the blind and visually impaired persons. The Amendments introduce in particular the possibility of converting not only a work but also its translation into a special format, thus enabling the blind and visually impaired persons to perceive information. After conversion, the work may be imported, distributed, transferred and rented without the author's permission and without payment of remuneration for the above-mentioned purposes only, i.e. exclusively for the blind and visually impaired persons. At the same time, unlimited access to such works by persons for whom they are not intended must be restricted.

License agreement

The concept of the copyright agreement under which an author personally grants a license was included in the general regulations applicable to license agreements. The Amendments introduced an obligation on parties to a license agreement to specify the ways in which the copyright objects may be used. In addition, the Amendments set forth the default rules that apply if the license agreement with an author does not explicitly specify the term or territory. In particular, where the license agreement stays silent on such issues, the default term is three years and the license extends to the territory of Belarus only.

Open license

The Amendments also introduce the concept of an open license, defined as a simplified way of concluding a license agreement in respect of any copyright object by accepting a public offer. Such a possibility was previously only envisaged for software and databases. An open license is presumed to be free of charge unless it directly specifies payment. As a default rule, the open license is deemed to have been accepted and the license agreement concluded if a person starts using the relevant copyright object. The open license extends globally if the license agreement does not contain a clause setting out its territorial scope. The default term of the open license is equal to the term of the relevant exclusive rights with respect to software and databases. For other copyright objects, the default term is five years.

Amount of compensation

The minimum amount of compensation for copyright infringement was reduced to one base unit



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(approximately EUR 11). Previously, the minimum amount of compensation was ten base units (approximately EUR 110).

Summary

The Amendments improve the copyright regulations by bringing them into line with modern trends. In fact, they integrate into Belarusian copyright law an analogue of the open license concept widely used throughout the world. The

Amendments also strike a balance between the needs of society and authors' rights. In general, the Amendments have been positively received by the Belarusian business community.

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Amendments to the Anti-Money Laundering Act

The Bulgarian Parliament recently adopted amendments to the Anti-Money Laundering Act (**Act**). Some of the amendments transpose into Bulgarian law the Fifth Anti-Money Laundering Directive – Directive (EU) 2018/843 (**AMLD5**). AMLD5 aims to further strengthen anti-money laundering rules and introduces various changes, e.g. extending the scope of the rules to include other entities.

Below we outline some of the amendments following the transposition of the AMLD5 and certain other changes to the Act.

Extending the scope of the rules to include other parties

Cryptocurrency exchange providers (engaged in exchange services between virtual currencies and fiat currencies) and custodian wallet providers (engaged in services to safeguard private cryptographic keys on behalf of its customers, and to hold, store and transfer virtual currencies) are among the newly-included entities that are under an obligation to identify suspicious activity. Moreover, these providers will be listed in a public registry administered by the Bulgarian National Tax Authority.

Prior to the amendments, the Act already included auditors, external accountants and tax advisors as parties responsible for the implementation of anti-money laundering measures. The amended scope extends these measures to any other person or entity that provides assis-

tance or advice on tax matters as principal business or professional activity.

Anonymous safe-deposit boxes

Anonymous safe-deposit boxes or boxes held under a fictitious name are now strictly prohibited. This rule supplements the already existing ban on anonymous bank accounts or passbooks or those held under a fictitious name.

Obligations for beneficial owners

The existing AML rules impose on all corporate and other legal entities incorporated in Bulgaria, as well as trusts and similar legal arrangements, an obligation to provide information about their beneficial owners in the respective public registers. However, it has been recognised in the registration process that there are cases where the ultimate beneficial owners hide behind complex corporate structures and refuse to provide the required information and documents to the obliged entities. In order to address this issue, the Act now explicitly obliges beneficial owners to provide all the necessary information and support to the companies they indirectly own.

Extended deadline for adoption of AML policies

All entities subject to the AML rules were required to update their anti-money laundering policies to ensure they comply with the new rules within four months after the secondary AML legislation is adopted. This deadline is now extended, and the new deadline is 6 months after the Bulgarian AML authority adopts and publishes the country AML risk assessment on its webpage, which is still pending.



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DAWN RAID THREATS IN THE DIGITAL ERA

Every year, digital technologies play a greater and more significant role in how businesses interact with one another. Nowadays, most business processes have more or less been digitalised. Paper documents and archives are being replaced by emails and electronic data storage solutions. Using modern technologies to process digital data offers a substantial increase in efficiency and accessibility to data and information on the one hand and such use of technology radically reduces the time needed to obtain data on the other. Operating in a digital environment has become indispensable in order to keep pace with the ever-accelerating exchange of information affecting the way business is conducted today. Digitalisation, however, in spite of its many undeniable advantages, brings a number of risks, which may at first go unseen.

One of the situations where the digital environment of the company, if handled and organised improperly, might prove to be very harmful includes on-site inspections conducted by competition authorities searching for evidence otherwise inaccessible, so-called dawn raids.

Due to technological progress, searching for digital evidence has now become an integral part of every dawn raid and the inspecting authorities have been quick to adapt to this development. As massive amounts of electronic information are exchanged daily via email accounts, smartphones, social networks, and other means of communication, and because such information is often stored for a long period of time at several locations (on in-house servers,

cloud services, etc.), the digital form of the information can make what is already an unpleasant intervention even riskier for the undertaking being inspected.

Below we set out the main disadvantages posed by digital environments with respect to dawn raids conducted by competition authorities.

Volume of accessible data

The power to conduct a dawn raid is usually based on the essential right of the inspecting authority to investigate business records which are on or accessible from the business premises regardless of their form.

Since storing digital data, unlike hardcopy documents, is rather effortless, business IT systems usually contain large volumes of machine-readable structured data which will all become accessible to the authority irrespective of whether it is located on the company's servers or stored on cloud services physically present outside the inspected premises.

Therefore, the volume of electronic data and its structure may significantly broaden the potential source of evidence the inspection authority will gain access to when compared to hardcopy documents. Even though the authority is still bound by the scope of inspection and thus cannot examine documents without any relevance to this scope, the risk of discovery of incidental evidence in the course of the inspection is much higher.

Electronic data is easier to search

As stated above, the machine-readability of digital data makes the entire search by the authority more efficient. Special search systems used by the authorities may give more comprehensive search results when compared to scanning

through single hardcopy documents. The system will tag all documents containing the key words used by the authority to search the extensive quantity of information. The tagged documents may be closely investigated by the inspectors afterwards. Given the limited duration of on-site inspections, the authorities can never go through as many hardcopy documents as they can digital data.

Beware of metadata

Unlike physical documents in hardcopy form, information valuable for the inspecting authority is not limited to the content of the document alone, but, in the case of digital data, it also relates to information such as the document's origin, author, time of creation and alteration or who accessed the document. Such information may also be part of the document in the form of metadata, *i.e.* data providing information about other data.

Less control over electronic data

The digital environment presents the opportunity to share documents easily via digital mediums and messaging apps. More copies of respective documents may be made in this way and even if a document on one digital medium is destroyed permanently, it can be present on other digital media or leave some traces of its existence detectable by special forensic software used by the authorities. In addition, even if the only existing copy of the respective digital document by a standard procedure is deleted, it may still be recovered by special software; something that cannot be done with hardcopy documents once destroyed.

Fishing expedition

Based on the reasons above, digital environments may seem unequivocally advantageous to the benefit of the inspectors. However, the authorities are facing challenges connected to digital data searches as well. It is disputed almost every time by the undertaking that evidence discovered by chance during the search is the result of a "fishing expedition", which is a practice generally prohibited for lack of reasonable suspicion justifying the raid in the first place.

However, the courts in the Czech Republic recently ruled that if the competition authority accidentally discovers evidence of a different violation of competition law during the dawn raid, it is entitled to seize such documents and use them as evidence. These new court decisions are not favourable for an undertaking that is the subject of a dawn raid as it makes it more difficult to dispute the new evidence by claiming it was the result of a fishing expedition.

IT systems complexity

A significant number of companies use modern and complex IT systems. These systems require trained staff, expertise and equipment, and these are services which a not insignificant number of companies outsource to a third party service provider. With respect to dawn raids, it is essential for the undertakings to understand that it is their obligation to provide the authorities with assistance and access to their IT system. Therefore, the presence of trained staff is necessary during the inspection. If such staff are not available (e.g. because the contractor of outsourced IT services is unavailable), the authority may claim that the undertaking is demonstrating its unwillingness to cooperate and impose a huge fine.



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In light of the above, it is evident that the establishment of proper rules for data management, including the creation of a data map, routine document destruction, rules for employees, etc., are a key factor for the success of every competition compliance programme.

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New Amendment Prevents Contractors from Blocking Occupancy Permit

The handover of a site is an essential element at both the beginning and end of a construction project. Since it substantially affects the rights, obligations and liabilities of the parties, the handover procedure is regulated in detail by the relevant law. However, the particular regulation often provides further opportunities for the parties to abuse their positions and put pressure on each other to enforce payment or other claims. Section 40(1)(g) of Government Decree No. 312/2012 was one such rule until it was revoked by Government Decree No. 244/2019. Until its revocation, contractors had the right to block occupancy permits from being obtained by denying the confirmation of the handover in the construction log. As this right was often abused, the government revoked the rule with effect from 24 October 2019. With this amendment, the risk to which principals are exposed concerning the handover procedure has been significantly reduced, while contractors have lost a substantial instrument to enforce payment.

The handover of a site is material as it signifies both the beginning and completion of construction and thus substantially affects the position of the parties. Until the principal hands the site over in proper condition, the contractor is entitled to refuse to carry out any work, and the delay arising from such rightful refusal does not qualify as a breach of contract. This implies that the construction period is automatically extended by the period of the principal's delay, and the costs arising from the prolongation of the project

must be borne and compensated by the principal.

A contractor's performance starts with the take-over of the site from the principal and its performance is deemed to have been completed upon the handover of the site to the principal. After the handover procedure, the contractor is not liable for any further delay to its main obligation, and warranty and guarantee periods start from this time, as does the principal's occupancy and use of the property.

Since a contractor's main obligation is deemed to be fulfilled at the time of the handover procedure, it has an interest in carrying out the procedure as soon as possible, while delaying the start of the handover procedure can be a strong instrument that allows the principal to enforce its claims more effectively than during the warranty period. Accordingly, principals often abuse their position by refusing to carry out the handover procedure without having a legitimate reason for refusing to do so. In order to reduce the risks for contractors in connection with acceptance of construction works, the Hungarian Civil Code sets certain limits in this regard under Section 6:247, which are as follows: (1) a contractor is deemed to have performed in due time if the handover procedure begins within the contracted delivery period; (2) acceptance may not be refused on the grounds of any defect that does not prevent use of the project for the purpose intended; (3) if the principal fails to carry out the handover procedure, the legal effects of performance take effect upon the actual transfer of possession.

On the other hand, principals usually also have an interest in the prompt completion of the handover because, in line with Section 5:5(3) of



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the HCC, they cannot use the building and the contractor is entitled to the protection of its possessions against the principal until the procedure is completed.

A principal can start using a building after it has obtained an occupancy permit for it, which also requires the completion of the handover procedure. Before 24 October 2019, it was not enough to hand the site over; under Section 40(1)(g) of Government Decree No. 312/2012, the handover also had to be registered in the construction log and confirmed by the contractor as a condition for the occupancy permit. In practice, this meant that contractors had a right to block the issuing of occupancy permits and it was a rather effective tool in the enforcement of payment and other claims against principals, together with statutory liens regulated under the Section 6:246 of the HCC. (According to this provision, a contractor is entitled to a statutory lien, up to the contract price and expenses, on

movables that the principal acquires as a consequence of the works contract.)

The preamble to Government Decree No. 244/2019 argues that the amendment was necessary due to this provision being widely abused. While the modification deprives contractors of a substantial instrument to enforce their claims, it must be borne in mind that there are several other effective legal instruments for this purpose, such as the aforementioned statutory lien, construction trustees and bank guarantees.

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The Payment Services Directive in Romania

The Payment Services Directive (PSD2; Directive (EU) 2015/2366) was transposed into Romanian legislation by Law No. 209/2019 (the "Law") enacted by the Romanian Parliament and published in the Romanian Official Gazette, Part 1, on 13 November 2019.

The Law enters into force within 30 days of its publication in the Official Gazette. With regard to its applicability, the Law expressly provides that (i) for contracts in progress, payment service providers are obliged to ensure the contract provisions comply with the Law within 60 days of the date of its entry into force, and that (ii) payment service providers offering account administration services must take steps to ensure they do not block or abusively obstruct the payment initiation services or account information services.

The Law regulates (i) the conditions for providing payment services, (ii) the prudential supervision of the payment institutions and of the providers specialized in information services for accounts, (iii) the transparency regime for the conditions and requirements of the information regarding payment services, and (iv) the rights and obligations of the payment service users and providers in the context of performing payment services under professional title. The Law expressly indicates which operations fall outside the scope of application of the Law.

According to the Law, any entity intending to provide payment services in Romania as a payment institution needs authorization from the National Bank of Romania (BNR) prior to commencing such an activity. Other domestic authorities may be involved (e.g. consumer protection, anti-money laundering, etc.) during the authorization process. Authorization is issued to a Romanian legal person that performs – at least in part – the payment services in Romania and only under specific conditions for the shareholders or the associates holding qualified participations.

The authorization issued by the BNR allows payment services to be provided in any EU Member State subject to observance of the Law. Payment institutions may provide operational services and ancillary/related services to ensure, for instance, the execution of payment operations, exchange services, and custody activities or data storage/processes, as well as other services provided by the Law.

In terms of the application of the Law, the BNR will issue a secondary regulation providing detailed requirements for the authorization and supervision process.

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