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ALTERNATIVES IN THE FACE OF FINANCIAL ISSUES ASSOCIATED TO CORONAVIRUS

Upon the sanitary emergency triggered by COVID-19 and the consequential slow-down for commerce and the economy in general, it is likely that many companies will lack the liquidity to face payments for their creditors, suppliers, personnel, etc.

In the face of such an issue, companies might ensure financing via short-term loans, provisions, shareholders' equity, renegotiation of the terms of repayment for their debts, commercial efforts to accelerate sales, factoring and confirming, among other financing possibilities at hand.

In other countries, laws have been passed for debtors not to have the obligation to file for their own insolvency arrangements, and aimed at suspending payments coming due, among others.

In Chile, certain State authorities -such as the Tax Authority (Servicio de Impuestos Internos, or the SII) and the Board for the Financial Market- plus several private banks, have announced a series of measures that will enable companies to access loans in an easier manner, besides granting programs to ease, make more flexible and renegotiate past-due payments.

Please check: Tax measures of the Emergency Economic Plan upon Covid-19.

Additionally, Law No. 20,720 on Insolvency and Resuming Entrepreneurship is available, offering companies a series of alternatives to solve their financial hardships through 3 possible options: (i) Judicial Reorganization; (ii) Simplified Reorganization Agreement; and (iii) Voluntary Liquidation.

1. The Judicial Reorganization procedure allows for a company to propose to its creditors a debt restructuring agreement, obtaining time extensions, payment timelines, partial remissions, etc. One of its greatest advantages is that it presents the company with a 30-day Arrangement for Financial Protection (extendable up to 90) within which its creditors cannot file for any sort of enforcement against it, nor terminate contracts early citing as cause the initiation of a reorganization procedure, and neither cash securities, among other protections. Additionally, it grants a super preference on payment to essential suppliers that keep up the supply and to creditors that grant new loans to debtor, provided certain legal requirements are met.

Once the Arrangement for Financial Protection has elapsed, debtor's creditors shall vote on the approval of the reorganization agreement proposed by debtor; approval shall be achieved with two thirds of the votes of creditors representing, in turn, two thirds of overall liabilities and with a right to vote.



If you have any questions regarding the matters discussed in this news alert, please contact the following attorneys or call your regular Carey contact.

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2. The Simplified Reorganization Agreement has the same purpose, with the difference that debtor presents for judicial approval an agreement already executed and negotiated with 2 or more creditors representing at least 75% of liabilities. The latter makes the procedure faster.
3. Finally, companies may opt for the Liquidation Procedure, by virtue of which a Liquidator takes over the company to sell its assets and pay the debts, in accordance with the order of the credits. Once the procedure is over, all pre-existing debts are extinguished, notwithstanding them not having been paid with company assets.