

DELEVERAGING PROBLEM PERSISTS - ARAOZ & RUEDA

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Doubts remain about whether Madrid authorities will take away the Government's status as a privileged creditor

Recent legal developments relating to the restructuring of debt have created many opportunities for law firms in Madrid, according to Alejandro Fernández de Aroz, partner at Aroz & Rueda. "In addition to real estate, portfolios of non-performing loans and other receivables and securities, everybody is interested in the modifications to the insolvency laws and regulations," he says. "In Spain, there's a huge deleveraging problem on both the public and private side - there's still a lot of restructuring to be done." The new provisions facilitate debt restructuring agreements, including better "cram-down" instruments and flexibility to capitalise debt into equity.

It is hoped that a more flexible legal framework will make it easier for corporate debtors to restructure their debt and work with their creditors. Alongside this, the Government has introduced a new employment framework, to allow companies to make hiring more flexible, salaries more competitive and redundancies cheaper – a move Fernández de Aroz believes complements restructuring. "Sometimes good companies take on too much debt, so we not only have to work on the debt but what we do with the workforce."

Fernández de Araoz adds that it is unclear whether the Madrid authorities will enact future legislation to ensure that debt restructuring agreements also cover debts owed to the Internal Revenue and Social Security which still have a privileged status. In fact, most Spanish SMEs bank with only one institution and have as their main creditors the Internal Revenue and Social Security. He says: "If we want SMEs to keep going and make it, we need to tackle this privileged status of the Government as a creditor immediately."

These developments are now forcing Madrid law firms to restructure. "Clients now want partners in on every meeting, as sometimes you need broad expertise in different areas of the law, that is, the corporate, insolvency, banking & finance and procedural law aspects."