

## REHABILITATION AS THE NEW NORMAL: VIETNAM'S NEW LAW ON REHABILITATION AND BANKRUPTCY

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The new Law on Rehabilitation and Bankruptcy 2025 (the “**2025 Law**”) marks a fundamental shift in Vietnam’s insolvency regime, with material implications for creditors and enterprises.

Vietnam’s insolvency regime has evolved significantly since the enactment of the Law on Enterprise Bankruptcy 1993 (the first bankruptcy law), followed by the Bankruptcy Law 2004 and the more comprehensive Bankruptcy Law 2014 (the “**2014 Law**”), which established Vietnam’s first structured insolvency framework.

However, despite these reforms, implementation has remained limited: from the 2014 Law’s entry into force through September 2023, courts reportedly accepted over 1,500 bankruptcy petitions but issued bankruptcy declarations in only around 150 cases, with rehabilitation applied in just six. Against this backdrop, the 2025 Law seeks to address longstanding practical limitations by introducing more detailed and enforceable mechanisms to improve the effectiveness of both rehabilitation and liquidation procedures in practice.

The 2025 Law shall take effect on 1 March 2026, except that provisions on the tax authority’s filing for bankruptcy will take effect on 1 July 2026.

## Key Takeaways

- **Rehabilitation is now a standalone procedure**

The 2025 Law introduces rehabilitation as an independent process that may be voluntarily initiated before bankruptcy.

- **Two-tier financial distress framework**

The 2025 Law distinguishes between:

- *Risk of insolvency* (inability to pay debts to become due within the next six months or overdue debts unpaid up to six months), and
- *Insolvency* (debts overdue and unpaid for more than six months).

Rehabilitation may begin at either stage, whereas bankruptcy requires insolvency.

- **Extended insolvency threshold provides more restructuring time**

The insolvency trigger is extended from three months (2014 Law) to six months (2025 Law), giving debtors more opportunity for rescue but increasing creditors' exposure to enforcement delays and asset erosion.

- **Lower barriers for creditor intervention**

Creditors may file once insolvency is established even if their own debt has not been overdue for six months, improving access to timely court protection.

- **Mandatory filing obligations and liability for delay**

Legal representatives, enterprise owners and tax authorities must file for bankruptcy upon insolvency unless rehabilitation has commenced. Failure to file may result in liability for losses.

- **Accelerated claim filing deadlines**

Creditors must submit claims within 15 days after commencement of bankruptcy proceedings (down from 30 days under the 2014 Law). Missing this deadline may result in loss of participation rights.

- **Expanded court powers to suspend burdensome contracts**

Courts may suspend contracts deemed burdensome after bankruptcy commences, except those relating to secured debts.

- **Introduction of fast-track procedures**

Fast-track rehabilitation and bankruptcy processes are detailed to apply to straightforward cases (e.g., small debtor scale, limited creditors, no assets, credit institutions), reducing timelines and costs while retaining collective creditor involvement.

## **Rehabilitation As An Alternative To Bankruptcy**

A key reform under the 2025 Law is the introduction of rehabilitation as a standalone procedure, which may be initiated independently of bankruptcy and at an earlier stage of financial distress.

The law distinguishes two levels of distress:

1. **Risk of insolvency**, where an enterprise is unable to pay debts falling due within the next six (6) months, or where overdue debts remain unpaid for up to six (6) months; and
2. **Insolvency**, where debts remain unpaid for more than six (6) months from their due date.

Rehabilitation proceedings may be initiated voluntarily upon the occurrence of either threshold, provided that bankruptcy proceedings have not yet commenced. By contrast, bankruptcy proceedings may only be initiated once insolvency has occurred.

Moreover, the extension of the insolvency threshold from three months under the 2014 Law to six months under the 2025 Law affords enterprises additional time to pursue restructuring. While this may enhance the prospects of business rescue, it may also increase creditors' risk of delayed enforcement and potential asset erosion, underscoring the need for heightened creditor vigilance and early engagement.

## **Initiation of Proceedings**

### **Who May Initiate Rehabilitation**

Rehabilitation proceedings may be voluntarily initiated by internal stakeholders such as the legal representative, governing bodies, or owners.

### **Who May File for Bankruptcy**

The 2025 Law clarifies and broadens creditor standing in bankruptcy proceedings. The right to file is granted to:

- unsecured and partially secured creditors;
- employees and trade unions where employee entitlements remain unpaid for six (6) months;
- shareholders holding at least 20% of ordinary shares (or a lower threshold under the charter); and
- members holding at least 65% of the charter capital of a multi-member limited liability company (or a lower charter threshold).

Two creditor-significant changes should be noted:

1. a creditor (other than employees or trade unions) may initiate bankruptcy once insolvency is established, even if its own debt has not yet been overdue for six months; and
2. the social insurance authority is expressly empowered to file for bankruptcy where mandatory insurance contributions remain unpaid or evaded for three consecutive years.

These changes materially reduce barriers for creditors seeking timely court intervention.

### **Mandatory Filing Obligations and Creditor Safeguards**

Legal representatives, governing bodies, and owners are required to file for bankruptcy upon insolvency unless rehabilitation has already commenced. Tax authorities are also subject to mandatory filing obligations under tax laws.

Crucially, the 2025 Law introduces explicit liability for failure to file as required. Any responsible person or authority may be held liable for losses arising from delayed filing. This provision strengthens creditor protection by discouraging strategic delay and asset dissipation. Tax authorities filing for bankruptcy for tax overdue have been rare, but with the explicit liability rule provided in the law, it may become necessary to monitor how tax enforcement actions will evolve in this respect.

### **Statutory Moratorium In The Rehabilitation Proceedings**

Within five working days after the court acceptance of a rehabilitation petition, civil enforcement actions regarding any enforceable court or arbitral decisions against the debtor's assets must be suspended. Exceptions remain for judgments and decisions concerning employee entitlements, personal injury compensation, confiscation for the State budget, and obligations secured by third-party assets.

From the date the court accepts a rehabilitation petition, the enterprise is entitled, upon the court's request, to a deferral of outstanding tax liabilities and a temporary suspension of contributions to the pension and survivorship fund in accordance with tax administration and social insurance laws. In addition, all debts arising prior to acceptance of the rehabilitation petition are subject to a payment standstill (but interests continue to accrue) from the date of acceptance until the court either recognises the rehabilitation plan or terminates the rehabilitation proceedings. Payments are permitted only for expenses deemed necessary to maintain the debtor's operations, as determined by the presiding judge.

## **Rehabilitation Plan And Repayment Priority**

The rehabilitation plan must specify concrete recovery measures and a structured debt repayment schedule. The rehabilitation plan must comply with the following statutory repayment priority:

1. rehabilitation costs;
2. employee-related claims;
3. new financing incurred for rehabilitation;
4. secured debts; and
5. unsecured debts.

The debtor must submit the plan within thirty (30) days of court acceptance, providing creditors with early visibility on recovery prospects.

During rehabilitation, the debtor may continue operations, but under close supervision by the asset administrator and the creditors' representative committee. Importantly, creditors may request the court to replace ineffective or non-compliant management, enhancing creditor influence over governance during restructuring.

The 2025 Law states that, where secured assets are used to implement the rehabilitation plan, security enforcement timing is subject to creditors' meeting approval – it is unclear whether such security enforcement timing would also be subject to the relevant secured creditor's consent.

## **Creditors' Meetings**

Creditors' meetings are a central decision-making mechanism under the 2025 Law. All creditors listed in the official creditor register may participate, in person, by proxy, or through written submissions. Non-attending creditors who submit written opinions are deemed to have participated and voted.

The creditors' meeting in the rehabilitation process may resolve to:

- approve the proposed rehabilitation plan;
- request termination of rehabilitation; or
- request commencement of bankruptcy proceedings, including decisions on advancing bankruptcy costs.

A rehabilitation plan that has been approved by creditors and recognised by the court becomes legally binding on all parties.

## **Bankruptcy Proceedings**

The 2025 Law expressly recognises creditors as participants in bankruptcy proceedings and regulates their rights in detail, reducing uncertainty regarding standing, notice, and participation.

Court handling of bankruptcy petitions is subject to clearer timelines and procedures, limiting inconsistent or delayed case handling.

### **Secured debts**

Following commencement of bankruptcy proceedings, the insolvency administrator proposes the handling of secured debts:

- where secured assets are used for rehabilitation, their use requires the secured creditor's consent;
- where no rehabilitation is pursued, secured assets are enforced in accordance with contractual terms or liquidated upon bankruptcy declaration.

Secured creditors retain priority over secured assets. Any shortfall becomes an unsecured claim, while any surplus is returned to the bankruptcy estate. Assets at risk of deterioration may be disposed of immediately for protection of value.

### **Timeline Accelerations**

However, from a creditor perspective, the 2025 Law shortens the overall bankruptcy timeline. In particular, creditors must file their debt claims within 15 days from the court's decision to commence bankruptcy proceedings, reduced from 30 days under the 2014 Law. Failure to submit claims within this period, absent a valid justification, results in loss of the right to participate in the bankruptcy proceedings.

### **Court Power to Suspend Contracts**

Where continuation of a specified contract is deemed burdensome to the enterprise, the 2025 Law grants courts the power to suspend such contract after the commencement of bankruptcy proceedings, except for contracts relating to secured debts. This power is broader than that under the 2014 Law, which only allowed courts to suspend contracts that had already been temporarily suspended after acceptance of a bankruptcy petition.

### **Creditors' Meetings**

The bankruptcy proceedings still permit the creditors' meeting to consider a rehabilitation plan if proposed by the enterprise. The creditors' meeting in the bankruptcy proceedings may resolve to, among others:

- request termination of bankruptcy proceedings where the termination conditions are satisfied;

- approve the proposed rehabilitation plan;
- request the court to declare the enterprise bankrupt;
- approve the transfer of assets or business operations, in whole or in part; where secured assets are transferred, the consent of the relevant secured creditor is required.

### **Fast-Track Procedures**

The New Law introduces fast-track (“rút gọn” in Vietnamese) procedures for both rehabilitation and bankruptcy, aimed at reducing cost and delay in straightforward cases.

The fast-track bankruptcy procedure applies in a range of specified circumstances, including where the enterprise:

- (a) has 20 or fewer unsecured creditors and total principal debts not exceeding VND 10 billion;
- (b) qualifies as a small or micro enterprise;
- (c) has no assets, or assets that are not recoverable or insufficient to cover bankruptcy fees and costs;
- (d) is a credit institution;
- (e) is an insurance or reinsurance enterprise that has failed to recover following the termination of regulatory control measures; or
- (f) otherwise falls within cases prescribed by law or guided by the Supreme People’s Court.

In cases involving small-scale debtors, the court must decide whether to apply the fast-track bankruptcy procedure within ten (10) days after accepting the bankruptcy petition. All procedural deadlines are reduced by half compared to ordinary bankruptcy proceedings.

If the debtor has no assets or insufficient assets to cover the costs of the proceedings, the court may declare bankruptcy within thirty (30) days from acceptance of the petition or from adoption of a creditors’ resolution requesting bankruptcy. Any unused advance payment of bankruptcy costs must be refunded to the petitioner.

However, creditors should note that key resolutions of the creditors’ meeting may be adopted by only 51% of participating creditors by value in the fast-track procedures, in contrast to 65% in the standard procedures.

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