

Special Alert

LAW ON REHABILITATION AND BANKRUPTCY: A NEW LEGAL FRAMEWORK PRIORITISING CORPORATE REHABILITATION

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With the aim of improving the regulatory framework of corporate insolvency and address shortcomings of the 2014 Law on Bankruptcy (the “**LOB 2014**”), the National Assembly, at its morning session on 11 December 2025, passed the Law on Rehabilitation and Bankruptcy (the “**New LORB**”), which takes effect from 1 March 2026 and replaces the LOB 2014. In this article, we will discuss several remarkable changes introduced under the New LORB.

Applicable Legislation and Fundamental Principles

The New LORB governs rehabilitation and bankruptcy cases of enterprises and cooperatives established in Vietnam, however the provisions on rehabilitation procedures and expedited rehabilitation procedures in this Law do not apply to credit institutions, insurance companies, or reinsurance companies. The regional People’s Court has jurisdiction to settle rehabilitation and bankruptcy cases within its territorial jurisdiction.

The New LORB also establishes several fundamental principles governing these procedures, among which the following are particularly noteworthy:

- Prioritising the application of rehabilitation procedures for entities (enterprises and cooperatives); and
- Ensuring timely and effective rehabilitation and bankruptcy procedures, harmonising interests and optimising the value of entities’ assets.

The “Insolvent” Status

Under the LOB 2014, an entity is considered insolvent if it fails to pay due debts for three months. Under the New LORB, an entity will be considered insolvent if it fails to pay due debts after six months from the repayment deadline.

Early Rehabilitation Procedure for Entities at Risk of Being Insolvent

Under the LOB 2014, rehabilitation forms part of the bankruptcy proceedings applicable to insolvent entities. The New LORB now introduces an early rehabilitation procedure as a separate procedure available to entities at risk of becoming insolvent, i.e., where they are unable to pay debts due within six (6) months or debts that are due but not yet more than six (6) months.

The rehabilitation procedures under the New LORB can be carried out after the filing of a rehabilitation case in court. Applicants requesting rehabilitation procedures must submit a business rehabilitation plan, a list of creditors and debtors, and supporting documents and evidence to prove that their request is well-founded and legitimate to the competent court.

After the rehabilitation petition is accepted by the competent Court, such entities may still continue their business operations, but will be subject to statutory supervision, restrictions, and certain asset-preservation measures, e.g., (i) temporary suspension of contributions to the pension and survivorship funds, and tax debts may be frozen upon the Court's request; (ii) temporary suspension of payment for debts incurred before the acceptance of rehabilitation petition; and (iii) although interest on such debts continues to accrue, the payment of interest will be temporarily suspended until the Court approves a rehabilitation plan or terminates the rehabilitation procedure.

Expedited Rehabilitation and Bankruptcy Procedures

The New LORB introduces expedited rehabilitation and bankruptcy procedures for the first time, addressing the legal gap under LOB 2014, which previously offered only a standard bankruptcy procedure that was often lengthy and costly. The timeline for such expedited procedures is approximately 50% shorter than that of standard procedures.

The expedited rehabilitation procedures are applicable to: (i) entities with no more than 20 unsecured creditors and total principal debts of VND 10 billion or less; (ii) small or micro entities; or (iii) other circumstances as prescribed by law.

The expedited bankruptcy procedures are applicable to: (i) entities with no more than 20 unsecured creditors and total principal debts of VND 10 billion or less; (ii) small or micro entities; (iii) entities having no assets, or having assets which however cannot be liquidated, or are not enough to pay bankruptcy fees, advances or expenses; (iv) credit institutions; (v) insurance and reinsurance companies that have had their control measures terminated by the Ministry of Finance but have failed to remedy the situation as stipulated in the Law on Insurance Business; or (vi) other cases as prescribed by law or as guided by the Supreme People's Court.

Electronic-Based Procedures for Rehabilitation and Bankruptcy Matters

To align with digitalisation trends and promote faster and more efficient procedures, the New LORB allows a number of activities to be conducted electronically, including: the issuance, service, and notification of documents; the filing of petitions for rehabilitation or bankruptcy; the payment of fees, deposits, and costs relating to rehabilitation or bankruptcy; the submission of documents and evidence; hearings on rehabilitation and bankruptcy matters; and other activities as permitted by law.

Expansion of Persons Entitled or Obligated to File a Bankruptcy Petition

Under the New LORB, the categories of persons having the right to file a bankruptcy petition against an insolvent entity include:

- unsecured or partly secured creditors;
- employees, trade unions (where the relevant entity fails to pay wages and other debts due to employees within six (6) months from the due date);
- shareholder(s) owning a total of at least 20% of ordinary shares, or a lower percentage as provided by the company charter (no longer required to hold such shares for at least six consecutive months);
- member(s) owning a total of at least 65% of charter capital (or a lower percentage as provided by the company charter) (a new entitle person, compared to the LOB 2014);
- members of cooperatives or the legal representative of member cooperatives; and
- the social insurance agency (applicable if it receives no response from the entity for three years after sending a request for payment of overdue or evaded mandatory social insurance, unemployment insurance, and health insurance contributions).

Meanwhile, the following person shall be obligated to file a bankruptcy petition, otherwise they shall be liable under the laws (including liability to compensate for damages caused by a failure to file the bankruptcy petition):

- the entities itself (its legal representative, sole owner);
- the board of management or the members' council of the company;
- the tax authority in accordance with the Law on Tax Administration; and
- the members' general council of the cooperative.

Notably, it is required under the New LORB that the tax authorities must file a bankruptcy petition against the entity in accordance with the Law on Tax Administration.

Recognising State Support Policies in Rehabilitation and Bankruptcy

The New LORB formally recognises the State's supportive role through tax, credit, interest rate and land finance measures during rehabilitation and bankruptcy processes. While detailed implementing regulations remain pending, this recognition reflects a shift towards facilitating enterprises in overcoming difficulties and serves as an important legal basis for enterprises to expect supportive measures aligned with restructuring efforts.

Ensuring Funding Sources for Advance Payment of Bankruptcy Costs in Special Cases

Under LOB 2014, there was no provision identifying funding sources to secure advance payment of bankruptcy costs in cases where such advance payments were exempted, particularly where the applicant was an employee, a trade union,

or where the enterprise or cooperative had no remaining assets.

The New LOCRB addresses this legal gap by clearly identifying the State budget as the source for advancing bankruptcy costs in certain circumstances, including where the applicant is an employee, a trade union, the tax authority, or the social insurance authority, or where the enterprise lacks sufficient assets to cover such costs. Importantly, such advance payments are not unconditional subsidies, but must be reimbursed to the State budget once the enterprise's or cooperative's assets are realised.

From a policy perspective, this provision expands access to restructuring and bankruptcy procedures, reduces financial barriers at the initiation stage, and enhances the protection of employees' rights and the interests of public authorities in cases of insolvency.

Enhanced Role of the Court and Insolvency Practitioners

The New LORB significantly expands the powers and duties of Judges, including mediation, recognition of agreements, application of case law and assistance in cases involving foreign elements. The New LORB also tightens the requirements on the independence and objectivity of insolvency practitioners, requiring them to decline participation where conflicts of interest exist and expanding their role in convening creditors' meetings, asset recovery and representing enterprises in disputes. These changes indicate that rehabilitation and bankruptcy procedures under the new law will involve more substantive case management rather than merely administrative processes.

Conclusion

The New LORB marks a significant shift in Vietnam's approach to corporate crisis management. Instead of treating bankruptcy as an "end point" of the entities, the New LORB establishes a legal framework in which rehabilitation is placed at the centre, with mechanisms for early intervention, clearly defined legal responsibilities, and a more active role for courts and related stakeholders.

However, alongside increased opportunities for rehabilitation come higher expectations regarding risk management, financial transparency, and timely action. Enterprises, managers, shareholders, and other stakeholders can no longer delay or "wait until no options remain". They must proactively identify insolvency risks, assess recovery potential, and consider rehabilitation tools at an early stage. Accordingly, the New LORB should be viewed not merely as a procedural law governing rehabilitation and bankruptcy, but as a guiding framework requiring enterprises and their managers to shift from reactive crisis response to proactive, responsible, and strategic financial governance.

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