

Dissolution, Liquidation, and Deregistration of Trade Companies in Romania

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Abstract

The reasons why a company can be dissolved and then liquidated can be diverse and refer either to the impossibility to make the payment of its debts/claims, or to the decision of the partners / shareholders to dissolve and liquidate the company, followed by the division of its assets.

In fact, dissolution - liquidation – deletion/deregistration are the 3 stages of the process of termination of a company’s existence.

Each stage mentioned above involves drawing up documentation and taking certain steps, and the successful completion of the dissolution stage allows the entry into the liquidation stage and subsequently the deregistration of the company from the records of the Trade Register Office.

Key words: dissolution, liquidation, deregistration, trade companies, Law no.31/1990

J.E.L. classification: L10, M20, M21

1. Introduction

Through this paper, we aim to analyze the situation regarding the dissolution, liquidation, and deregistration of trade companies in Romania. We aim to analyze statistically the figures recorded in the last five years in this direction through the information made public by the National Trade Register Office in Romania. In the framework of the last two pandemic years, we want to make a radiography of the Romanian business sector. In this direction we will analyze the suspensions, dissolution, and deregistration of the trade companies in Romania in the last two years in comparison with the numbers registered before the pandemic.

2. Theoretical background

2.1. Dissolution of companies

The dissolution of companies is a stage in the process of termination of their legal personality, consisting of a set of operations that result in the liquidation of the assets of the respective companies and their deregistration from the Trade Register.

From a legal point of view, the dissolution of companies is regulated by Law no. 31/1990. The situations that lead to the initiation of the dissolution process are:

- the expiration of the time limit for the duration of the company's being operational.
- the impossibility of achieving the object of activity of the company or its completion.
- the declaration of the nullity of the company by a court.
- the decision of the general meeting.
- the decision of the court, at the request of any partner / shareholder, for a just cause/on certain grounds.
- the insolvency of the company.

The expiration of the time limit for the duration of the company’s operation. This reason for dissolution arises when the partners, through the articles of association/incorporation, established a fixed duration of the company’ being operational. After the expiry of the time limit, the *de jure* dissolution is installed, consequently going directly into the liquidation procedure of the company.

The impossibility of achieving the object of activity of the company or its completion. If the achievement of the objective set out at the establishment of the company cannot be achieved, for various reasons, the partners have two possibilities:

- either to change the object of activity,
- or to decide the dissolution of the company.

The declaration of the nullity of the company by a court. If a court ascertains the non-compliance with the form and substance conditions required by law regarding the formation of companies (for example, the conditions relating to the number of founders or the share capital), it may declare the nullity of the company.

The decision of the general meeting. The dissolution by decision of the general meeting is considered the most frequent and typical case of dissolution of the companies. Since a company is the result of the will of its partners, they can also decide to dissolve it. This dissolution procedure is called voluntary dissolution.

When the company no longer has statutory bodies (for example, General Meeting, Board of Directors) or they can no longer meet, it means that there is no will on the part of the members for the company to continue to be operational, in which case voluntary dissolution may be ordered.

The dissolution of a single-member LLC (Limited Liability Company) implies the transfer of the company's assets to the sole member without a liquidation process. The transfer of assets takes place, and the company ceases to exist if there are no third parties to oppose the dissolution (e.g., creditors of the company).

In the case of a voluntary dissolution in which all the partners agree on how to divide the assets, it is not necessary to appoint a liquidator in order to carry out the operations of liquidation and deregistration from the Trade Register.

The decision of the court, at the request of any partner / shareholder, for a just cause, such as:

- serious misunderstandings between partners / shareholders that impede the company from being operational.
- the disappearance of the company's partners / shareholders.
- the lack of a known office of the company.
- the company has not submitted, for 3 consecutive years, the balance sheet, or other documents which, according to the law, are to be submitted to the Trade Register Office.

Once the court's decision becomes final, the dissolved company will be automatically deleted/deregistered from the Trade Register.

The insolvency of the company. Insolvency is the insufficiency of money for the payment of overdue debts. Bankruptcy is a procedure that leads to the termination of the existence of a company which is unable to pay its business debts. The main criteria underlying the ascertainment of insolvency, and implicitly of bankruptcy, are the **lack of solvency and the degree of indebtedness of the company.**

From a legal point of view, an economic agent which cannot pay its debts, is obliged, according to law no. 85/2006 on insolvency, within 30 days from the appearance of the state of insolvency, to address a request to the court showing the intention to begin the procedure of restructuring its activity or the complete or partial liquidation of property, to settle the company’s debts.

The dissolution of the companies must be registered in the trade register and published in the Official Gazette of Romania, Part IV, leading to the initiation of the liquidation procedure. Any interested person may appeal against the dissolution decision within 30 days of the publication in the Official Gazette.

Once the dissolution procedure has been initiated, the directors and administrators of the company can no longer carry out new operations, otherwise they are personally and jointly liable for the actions undertaken.

The company will retain its legal personality until the completion of the dissolution and liquidation operations.

Following the dissolution and liquidation, the deletion/deregistration of the company from the trade register will be obtained, and the deregistration certificate of the company will be issued.

2.2. The liquidation of companies with an appointed liquidator

The liquidation of companies is the responsibility of natural or legal persons called liquidators. The General Meeting appoints the liquidators. If the General Meeting cannot decide, the liquidators will be appointed by a court.

The liquidators have the same responsibility as the administrators. They are liable immediately after taking office to make an inventory, together with the company's administrators, and to conclude a balance sheet in which to ascertain the exact situation of the company's assets, capital, and debts.

Among the duties of the liquidators, we are mentioning:

- to preserve the company's assets,
- to keep the ledgers entrusted to them by the administrator and the company's documents,
- to keep a record of all liquidation operations in a chronological order,
- to sell at public auction the real estate and any movable property of the company,
- to liquidate and collect the receivables of the company.

The liquidators fulfill their obligations under the control of auditors. After the completion of the liquidation operations, the net assets are distributed among the partners, an activity that puts an end to the liquidation procedure.

The liquidation of the company must be completed within 3 years from the date of dissolution. For a just cause, the court may extend this period by a maximum of 2 years. Upon completion of the liquidation, the liquidators must request the deregistration of the company from the trade register. The company's ledgers and documents must be kept for 5 years from the time of deregistration.

3. Research methodology

As a research methodology we've started to extract several data from the National Trade Register of Romania regarding the temporary suspensions of activity, dissolutions and deregistration of companies registered in the last three years per total country and among two Regional Development Areas, namely the Southeast Region and the Center Region. We've conducted a statistical analysis with the extracted data. Also we've calculated the **pearson correlation coefficient between indicators**.

4. Findings

Table no.1 presents the situation regarding the suspensions of activity, dissolutions, and deregistration of Romanian companies between Jan 2018 and Nov. 2022. We have also calculated the dynamic from a period to another. The numbers are extracted from The National Trade Register Office Statistics.

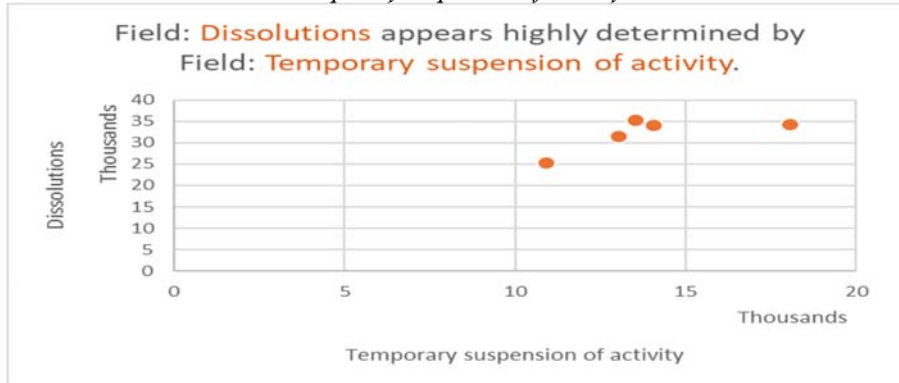
Table no. 1 Suspensions of activity, dissolutions, and deregistration of Romanian companies between Jan. 2018 and Nov. 2022.

Period	Temporary suspension of activity	Dynamics	Dissolutions	Dinamic	Deregistrations	Dynamics
01.01.2022-30.11.2022	13528	-	35368	-	65503	-
01.01.2021-31.12.2021	13020	3,90%	31655	11,72%	66897	-2,08%
01.01.2020-31.12.2020	10913	19,31%	25384	24,70%	51715	29,35%
01.01.2019-31.12.2019	14040	-22,27%	34080	-25,51%	101601	-49,09%
01.01.2018-31.12.2018	18038	-22,16%	34358	-0,80%	80181	26,71%

Source: Own processing from data extracted from the National Trade Register

When an entrepreneur wants to stop the activity temporary but is not sure if he wants to continue with his company, he has the option to put his activity in temporary suspension. The temporary suspension period is limited on three years. During this period, the entrepreneur is not allowed to carry out any activity in the name of the firm. Between the analysed period (Jan. 2018 and Nov. 2022) we can see that in Romania there were almost 70.000 suspensions registered by the National Trade Register Office. In 2018 were registered approximately 18.000 companies which stopped temporary its activity. In the pandemic year, 2020, we registered the lowest number of firms which solicited the entrance in temporary suspension of activity. Most of the companies were overwhelmed by the uncertainty of that period and hopped for a recovery.

Figure no. 1 Correlation between temporary suspension of activity and dissolutions



Source: Own processing

As we can see from the above chart, there is a strong correlation between dissolutions and temporary suspension of activity. The calculated **Pearson correlation coefficient is - 0.689184**. This means that most of the companies that were put in a temporary suspension of activity in the last 5 years, in the end were dissolved. As we mentioned before the temporary suspension of activity give time to the entrepreneur to decide if they want to dissolve the company or to continue after three years. We can conclude that temporary suspension of activity is the stage zero in the process of dissolving a company.

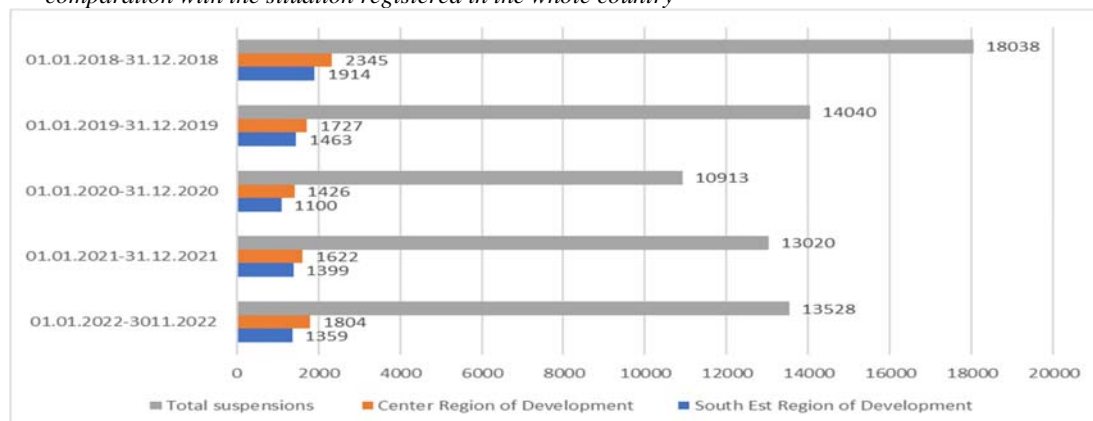
We have also calculated the **Pearson correlation** coefficient between:

Temporary suspension and deregistration – 0,539544

Dissolutions and deregistration's – 0,639417

We obtained values over 0.50 of the Pearson correlation coefficients. We can affirm that there also strong correlations between the indicated indicators.

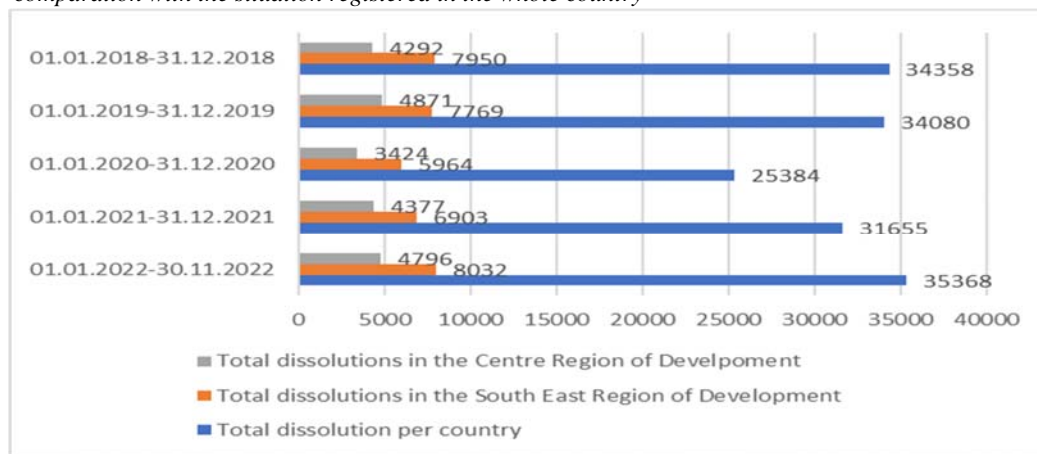
Figure no. 2 Suspension of companies in Southeast Region and Centre Region of Development in comparison with the situation registered in the whole country



Source: Own processing from data extracted from the National Trade Register

In the above figure, we have centralized the total numbers of temporary suspension of activity among Romanian companies, in the South-East Region and Centre Region of Development. In 2022, the southeast business environment registered 10% from total suspensions recorded in the whole country. Cities like Constanta, Tulcea, Braila, Galati, Buzau, Vrancea maintained almost the same numbers regarding the suspensions of activity between 2021 and 2022. In the last five years we can observe that the pre pandemic years registered the highest values regarding the suspension of activity. Bucharest and Ilfov County form together the Centre Region of Development of Romania. This region represents between 12% and 13% of total suspensions of activity among Romanian’s companies in the analysed period.

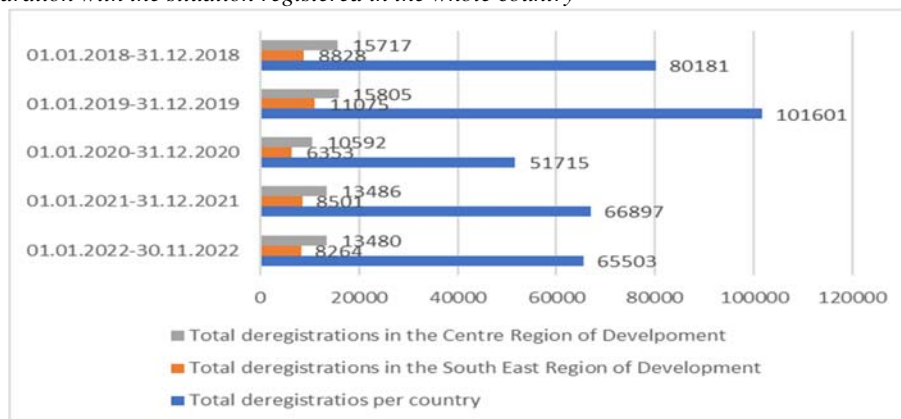
Figure no. 3 Dissolution of companies in Southeast Region and Centre Region of Development in comparison with the situation registered in the whole country



Source: Own processing from data extracted from the National Trade Register

From the above chart, we can observe that 2022 was the year with the highest number of dissolved companies. Over 35.000 companies stopped their activity in the last year. Maybe the long-term effects of the sanitary crisis started to decimate the Romanian business environment after two years of sanitary crisis. Also, the Southeast Region of Development registered the highest number of dissolved companies in 2022. Counties like Constanta, Tulcea, Braila, Galati, Buzau and Vrancea registered together over 8.000 of dissolved companies, gathering almost 23% of the total companies dissolved in the whole country.

Figure no. 4 Deregistration of companies in Southeast Region and Centre Region of Development in comparison with the situation registered in the whole country



Source: Own processing from data extracted from the National Trade Register

The deregistration process of the company is the last stage in ending a business activity. In the last five years, The National Trade Register Office of Romania registered almost 366.000 of deregistered companies. The Southeast Region and The Centre Region of Development gather 30% of the total number of deregistered companies from the Romanian Trade Register.

5. Conclusion

Through this paper we have analyzed the situation regarding suspensions, dissolution, and deregistration of the trade companies in Romania in the last five years. From the conducted research we can state:

- there is a strong correlation between dissolutions and temporary suspension of activity among Romanian trade companies. (the person correlation coefficient calculated between these two indicators is 0. 689184):
- we found also strong correlation between temporary suspension and deregistration and also between dissolutions and deregistration's (we obtained values over 0.50 of the Pearson correlation coefficient):
- between Jan. 2018 and Nov. 2022 were almost 70.000 suspensions of activity among Romanian companies registered by the National Trade Register Office.
- 2022 was the year with the highest number of dissolved companies (over 35.000 companies stopped their activity in 2022).
- in the last five years, The National Trade Register Office of Romania registered almost 366.000 of deregistered companies.

6. References

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