

INTERNATIONAL MONETARY FUND

EUROPEAN AND LEGAL DEPARTMENTS

Toward a 28th European Enterprise Regime

A Single Rulebook to Enable
Cross-Border Scale-Up in Europe

Prepared by Alexandra Fotiou, Allan Dizioli, and José M. Garrido

2026



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Cataloging-in-Publication Data
IMF Library

Names: Dizioli, Allan, author. | Fotiou, Alexandra, author. | Garrido, José María, 1965–, author. | International Monetary Fund, publisher.

Title: Toward a 28th European enterprise regime: a single rulebook to enable cross-border scale-up in Europe / Prepared by Allan Dizioli, Alexandra Fotiou, and Jose Garrido.

Other titles: A single rulebook to enable cross-border scale-up in Europe. | Departmental Paper. | International Monetary Fund. European Department. | International Monetary Fund. Legal Department.

Description: Washington, DC: International Monetary Fund, 2026. | Includes bibliographical references.

Identifiers: ISBN:

9798229050715	(paper)
9798229050906	(ePub)
9798229050760	(webPDF)

Subjects: LCSH: European union—Economic integration. | Business enterprises—law and legislation—European union countries.

Classification: LCC HC241.D59 2026

This departmental paper was prepared under the general guidance of Oya Celasun and Malhar Nabar. The authors would like to thank Helge Berger, Luis Brandao-Marques, Brendan Crowley, Alessandro Gullo, Alfred Kammer, Huidan Lin, and Yan Liu, as well as participants to the IMF European Department seminar for helpful discussions and suggestions. We also thank the European Commission and the European Central Bank for helpful discussions and exchanges. The paper benefited from helpful comments from IMF departments and from the Executive Directors' offices during the review process. Morgan Maneely and Karen Cerrato provided excellent research assistance and support respectively.

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Executive Summary

Europe's productivity gap reflects persistent barriers to firm dynamism. A key constraint is the fragmentation of enterprise law across European Union (EU) member states, which raises compliance costs, increases legal uncertainty, and discourages cross-border investment and expansion. These frictions weaken firm entry, limit scale-up, and reduce the efficiency of capital allocation, particularly for start-ups and high-growth firms.

This paper proposes the establishment of a "28th European enterprise regime"—an optional EU-wide legal framework governing company formation, operation, and insolvency. Operating alongside national regimes, this voluntary framework would provide a single rulebook for firms choosing to opt in, enabling seamless cross-border activity without the need to comply with multiple legal systems.

The economic case for such a regime stems from two mutually reinforcing frictions created by fragmentation. First, it weakens the ability to match finance with innovative firms, as legal heterogeneity raises due diligence costs and limits cross-border investment. Second, it impedes the transformation of ideas into scalable business operations by increasing the cost and complexity of expanding across jurisdictions. Together, these frictions constrain productivity growth and prevent firms from fully exploiting the EU's single market.

The proposed regime addresses these constraints through a targeted set of design features covering the firm's life cycle. It would provide a digital-first framework for fast and low-cost incorporation and standardized reporting; flexible capital structures aligned with the needs of venture financing; and a unified, rescue-oriented insolvency framework that improves predictability and supports value-preserving restructuring. These elements would allow firms to operate under a single EU legal identity, reducing fixed costs and enabling cross-border mobility at scale.

Model simulations suggest that reducing legal fragmentation along these dimensions could yield sizable macroeconomic gains. The introduction of a 28th regime could increase EU GDP by about 3.3 percent over 10 years, rising to 4.4 percent over 20 years, reflecting improved firm entry, deeper capital markets, and more efficient restructuring outcomes. The estimated gains correspond to a meaningful share of the EU-US productivity gap, highlighting the importance of firm-level frictions for aggregate performance.

Designing the regime requires balancing economic effectiveness with political feasibility. The proposal therefore envisages an optional, opt-in framework, avoiding the need for full harmonization of national laws while allowing firms to choose a unified regime where benefits are greatest. Establishing the regime through an EU regulation would ensure uniform application, whereas a phased approach would focus initially on corporate law and insolvency—where fragmentation is most binding—before considering extensions to tax and labor law.

Implementation would rely on existing national institutions complemented by EU-level coordination to ensure consistent application. Over time, broader adoption of the regime could generate positive spillovers through regulatory competition, encouraging improvements in national frameworks and deepening integration within the single market.

Overall, a well-designed 28th regime offers a pragmatic pathway to strengthen Europe's growth model by reducing legal fragmentation where it matters most for firms. By improving the conditions for firm creation, scaling, and restructuring, it can support innovation, deepen capital markets, and enhance productivity, contributing to a more dynamic and integrated European economy.

Acronyms and Abbreviations

EC	European Commission
EEC	European Economic Community
EU	European Union
GIMF	Global Integrated Monetary and Fiscal Model
LLC	limited liability company
SE	Societas Europaea (European company)
SIU	savings and investments union
SME(s)	small and medium enterprise(s)
SPE	Societas Privata Europaea
SUP	Societas Unius Personae
TFEU	Treaty on the Functioning of the European Union
TFP	total factor productivity
VC	venture capital
WB	World Bank

1. Introduction

Closing Europe's productivity gap requires improving the business environment, so that firms can scale up efficiently within domestic markets and across borders. A growing policy consensus emphasizes that Europe's fragmented regulatory and legal landscape constrains firm dynamism, weakens investment incentives, and limits the emergence of large, high productivity firms compared with the United States (Draghi 2024; Letta 2024; Adilbish and others 2025; Arnold and others 2025). Recent work on the European Union (EU) single market and the savings and investments union (SIU) similarly underscores that legal and financial fragmentation limits cross-border scaling and capital allocation, weighing on productivity and resilience (Brandão-Marques and others 2026). Impaired firm dynamism—weaker entry, constrained scaling, limited access to risk capital, and inefficient restructuring or exit—inhibits innovation and suppresses productivity growth in Europe.¹

A way to frame the problem is that Europe's fragmented enterprise environment weakens two fundamental matching processes that are essential for scale-up. First, it reduces the ability of the economy to *match finance with ideas*: promising firms—especially young, intangible-asset-heavy firms—face higher contracting and due diligence costs, greater legal uncertainty, and more segmented pools of venture and growth capital, which discourages cross-border investment and raises financing costs. Second, it undermines the ability to *match ideas with scalable operations*: even when finance is available, firms face recurring legal and administrative frictions when they try to expand, establish subsidiaries or branches, relocate, merge, or otherwise “set up shop” in another member state—making it harder to translate innovation into EU-wide production, distribution, and market reach. These two frictions reinforce each other. When cross-border scaling is costly or uncertain, risk-adjusted expected returns to investment fall and investors become more cautious; when risk capital is scarce or costly, fewer firms can fund the fixed costs of expansion. Together, these mechanisms limit the translation of innovation into EU-wide productivity growth. These frictions stand in contrast to more integrated jurisdictions, such as the United States, where firms can scale across states under largely unified legal frameworks for corporate activity and insolvency.

Companies seeking to operate across borders² in the EU face a patchwork of national enterprise laws,³ divergent insolvency regimes, and compliance requirements that often involve duplicative registrations and varying disclosure standards. These legal differences are compounded by divergent taxation and labor law regimes, raising the fixed costs of operating in more than one member state. Although large and productive firms do succeed in expanding cross-border, for many smaller and younger firms, including start-ups, these fixed costs act as a deterrent to cross-border expansion, effectively confining growth to national markets. As a result, legal fragmentation limits firms' access to a larger market, their ability to reap economies of scale and knowledge spillovers critical for innovation and productivity growth (Caves 1998). Legal fragmentation also deters the development of deeper capital markets (Caves 1998).

¹ In parallel, recent work (IMF 2024, 2025) has documented large national structural reform gaps and persistent barriers fragmenting the European Union (EU) single market for labor, capital, products, and services. Closing these gaps could raise European productivity by about 20 percent, eliminating a large share of the gap with the United States.

² Cross-border operation, for example, means establishing a subsidiary or a branch, or engaging in a merger.

³ Enterprise law is the ensemble of laws and regulations directly affecting the organization and conduct of a business and includes corporate law, insolvency, tax, and labor laws and compliance. Many other laws also impact enterprise activity (for example, contract law, competition law, intellectual property laws). In line with prevailing EU policy discussions on the 28th regime, these other laws are not considered part of the core enterprise legal framework in this paper.

Against this background, the long-standing idea of a common, opt-in European regime has gained renewed traction.^{4,5} Existing EU-level initiatives—most notably the *Societas Europaea* (SE) and company law harmonization through directives—have facilitated cross-border activity to some extent but fall short of providing a simple, comprehensive, and widely accessible framework, particularly for smaller firms. They either rely on partial harmonization that leaves substantial national divergence or impose design features and compliance costs that limit uptake.

This paper calls for a “28th European enterprise regime”—an optional EU-wide legal framework for company formation, operation, and insolvency that would operate alongside existing national regimes. More precisely, the proposed regime would stand as a voluntary alternative (to existing national regimes) open to all firms (not just start-ups) to benefit from uniform rules across the EU.⁶ It would ensure harmonization in the critical areas of enterprise laws, while also offering a regime of high quality that reflects best practices. The key benefit of the regime is that it would offer a single EU-wide company form with seamless mobility. This would eliminate duplication of requirements as a firm would be automatically recognized in all EU states and would be able to relocate, merge, or convert across member states without needing to be dissolved and reincorporated under a new national law. This would support faster and broader market entry and expansion, allowing ambitious, innovative firms to benefit from the larger scale offered by the EU single market relative to national markets (see Scott Morton and Veugelers 2025). In economic terms, this would move the EU closer to the functional integration observed in the United States, where firms benefit from mutual recognition of corporate forms across states and a unified federal insolvency framework. Together, these features allow companies to operate and scale nationwide without needing to adapt to fundamentally different legal regimes, effectively reducing cross-border frictions. By contrast, in the EU, the coexistence of multiple national corporate and insolvency systems creates legal and financial discontinuities that raise the cost and uncertainty of cross-border activity. The approach of offering a common, opt-in regime would avoid the slow and incomplete nature of harmonization efforts, delivering greater predictability and usability.⁷

Implementing such a regime raises important challenges, which shape the design choices proposed in this paper. These include political economy constraints related to member state sovereignty (particularly in areas such as insolvency, taxation, and labor law); legal heterogeneity across jurisdictions; institutional capacity constraints (including judicial expertise and administrative infrastructure); and risks of uneven uptake across countries and firms. These considerations argue against a fully harmonized or compulsory approach at the outset and instead support a gradual, modular strategy based on an optional opt-in framework and phased expansion. This approach allows the regime to deliver early gains in areas with the highest economic returns while building trust, institutional capacity, and political support for deeper integration over time.

The proposal centers on three “must-have” pillars spanning the firm’s life cycle—formation, operation, and dissolution.

- First, a digital backbone enables easy, fast, and low-cost incorporation and reporting, reducing entry and compliance costs. Reducing the registration cost, including through reduced requirements for minimum capital, and allowing full digital registration will lower incorporating costs and reduce the time spent opening a business. Evidence from digitalization initiatives shows that faster and cheaper incorporation

⁴ See Annex 8 for a discussion of the European Commission’s proposal published on March 18, together with a table that compares it with the proposed 28th regime of this paper.

⁵ A more ambitious proposal is that of a “European Business Law Code” that would cover all enterprise matters, including commercial contracts and intellectual property (see draft European Business Code [<https://www.henricapitant.org/actions/draft-european-business-code/>]; Dupichot 2021). This project has clear merits but does not seem politically feasible at this stage. However, the Letta report (2024) refers to a European code of business law.

⁶ The idea of common enterprise legal framework for the EU is not new. See Annex 3 for a brief history of the idea.

⁷ For instance, harmonization through directives by design never achieves full uniformity because they allow member states broad options that often lead to diverging regimes. So-called “maximum harmonization” directives reduce but do not eliminate this problem, as they achieve more uniform results by preventing member states from adding more requirements or elements to the designed regime.

encourages firm creation and facilitates access to finance (Klapper and others 2007). Digital reporting also improves transparency and reduces information asymmetries between firms and investors (see Becht, Mayer, and Wagner 2007, and further discussion in this paper).

- Second, flexible capital structures are essential for early-stage financing. Start-ups need financing for their creation and growth, which can be most effectively secured through flexible capital structures (ELI 2025), which allow the use of multiple classes of shares and of financing instruments (including hybrids of debt and equity). The absence of such flexibility in venture capital (VC) contracting and legal uncertainty around financing instruments are found to discourage investment and raise transaction costs (Enriques, Nigro, and Tröger 2025). Moreover, standardized recognition of modern instruments such as simple agreement for future equity⁸ agreements would help reduce friction and support cross-border capital flows, as these instruments allow for investment without imposing an unbearable debt burden but protect the rights of investors in future capital increases. Flexibility in capital structures follows the pattern of the most recent national reforms to modernize frameworks for limited liability companies (see Opalski and others 2024).
- Third, a predictable, rescue-oriented insolvency framework is a particularly important component of an effective 28th regime as it can reduce uncertainty, lower credit risk, and encourage investment. Benefits would accrue both through the convergence in insolvency regimes across EU countries, as well as the higher quality through the broad adoption of best practices.⁹ Standardized legal frameworks reduce due diligence costs for investors, whereas predictable insolvency outcomes reduce credit risk, facilitate second chances, and encourage investment in high-growth firms with intangible assets. Research links legal framework quality to access to finance and credit costs (Djankov and others 2008; La Porta, Lopez-de-Silanes, and Shleifer 2008). If the 28th regime provides superior predictability and efficiency relative to navigating multiple national systems, it could facilitate cross-border investment and lending. By contrast, under the current fragmented framework, a company operating in several EU states may be affected by separate national insolvency procedures, and assets located in various countries can be liquidated following diverse rules and their proceeds distributed according to the national ranking of claims (see Box 1). This fragmentation weakens incentives for coordinated restructuring, increases the likelihood of premature or piecemeal liquidation, and reduces expected recovery values. As a result, otherwise viable firms are more likely to exit through liquidation rather than value-preserving reorganization, destroying going-concern value and raising the ex ante risk premium priced into cross-border financing of firms operating across jurisdictions. Consistent with this analysis, stronger insolvency regimes are associated with lower borrowing costs and improved credit allocation.¹⁰ A 10-percentage-point increase in expected recovery rates is associated with a 37 basis point reduction in bond spreads (AFME 2016; see also Bhatia et al. 2019), whereas more effective frameworks are linked to lower nonperforming loan stocks, reduced capital misallocation to zombie firms, and stronger investment dynamics, particularly in cross-border settings (Bricongne et al. 2016; Adalet McGowan, Andrews, and Millot 2017; Consolo, Malfa, and Pierluigi 2018; Hallak, Harasztosi, and Schich 2018; Kliatskova and Savatier 2020). By facilitating restructuring rather than liquidation, a rescue-oriented regime supports firm resilience, longer-term credit provision, and productivity growth (Pindado, Rodrigues, and De la Torre 2008; van Solinge and Soederhuizen 2023). At the same time, general improvements in the quality of the regime would also help integrate banking and capital markets in the EU (see Valiante 2016).

⁸ A simple agreement for future equity is an agreement where an investor provides financing to a company in exchange for the right to receive equity at a future date. Simple agreements for future equity were created in the United States in 2013 and are widely used by start-ups. The advantages of these agreements include that they are fast, economical, and simple; do not put debt pressure on the company; and do not require complex valuations. Another contract that is widely used among start-ups is Keep It Simple Security, which is closer to traditional instruments and can be considered a form of convertible debt.

⁹ It has been said that “perhaps we have the 27 best insolvency laws in the world. But perhaps we would be better off if we had the second best, but the same for all 27” (Speech by Federal Chancellor Olaf Scholz at the 23rd German Banking Congress in Berlin, April 23, 2024).

¹⁰ In this literature, the “strength” of insolvency regimes is proxied by outcome-based indicators—such as recovery rates, time to resolution, and enforcement costs—rather than by formal legal characteristics.

Collectively, these three elements establish a coherent framework to mitigate legal fragmentation. This enterprise legal framework would lower compliance and financing costs relative to those under the current EU patchwork of enterprise regimes, facilitate more risk taking, and support scale-up across the EU single market. It would thereby improve on the existing pan-EU enterprise legal framework (SE) by providing a complete and flexible structure more easily accessible, among other firms, to small businesses.¹¹ The proposed design draws lessons from the US experience (Annex 4) while adapting to Europe's distinct constitutional structure (unlike that of a federal state) and incorporating stakeholder governance protections, such as workers' rights, which are essential elements of EU law. Once these three must-have elements are established, the 28th regime could eventually expand to cover modules on tax and labor law, if consensus or coalitions emerge and uptake is significant.

Box 1. Divergence in Insolvency Laws in the European Union—An Example

Divergence in insolvency laws can generate significant economic inefficiencies for enterprises engaging in cross-border activity. The following stylized example illustrates the mechanisms at work.

Company A is a start-up specializing in software development. The company has been set up in Estonia and is subject to Estonian law. However, its center of main interests (that is, the effective center of business decisions) is in Germany. Company A also has some of its main establishments in Germany (headquarters and software laboratory), with additional establishments in France (development and marketing center) and in Poland (data center).

If Company A finds itself in distress and cannot reach an informal (out-of-court) restructuring agreement with its creditors, this is the insolvency situation that it may encounter:

(a) Jurisdiction:

Under Article 3(1) of the European Insolvency Regulation Recast, the jurisdiction to open main insolvency proceedings belongs to the courts of the member state where the debtor's center of main interests is located. Company A's actual headquarters, management, and principal operations are based in Germany, so even if the formal seat is in Estonia, German courts have jurisdiction to open main insolvency proceedings.

(b) The fragmentation problem: secondary insolvency proceedings:

The German main proceedings are, however, subject to a significant qualification. Because Company A has establishments in France and Poland, the courts of those member states can open secondary proceedings limited to assets situated in their respective territories (Article 3(2) European Insolvency Regulation Recast). Secondary proceedings can only be liquidation proceedings unless an agreement is reached.

In normal circumstances, the company could access restructuring tools under German law. French and Polish laws also include reorganization tools, but normally the secondary proceedings would lead to liquidation of assets in France and Poland and will prevent the preservation of the going-concern value of the company.

¹¹ See Annex 2—which discusses the facts on the ground—for more details on Societas Europaea (SE).

(c) Practical consequences of divergence and fragmentation:

The fragmentation generates concrete legal and economic inefficiencies for Company A and its stakeholders:

- *Uncoordinated creditors' incentives:* A restructuring plan for saving the company as a whole would be extremely challenging since creditors in different jurisdictions have incentives to enforce claims locally and early, seeking to maximize recovery from the local asset pool. Creditors in Poland and France may prefer immediate asset liquidation to recover their claims rather than supporting the restructuring of the company, meaning that the reorganization of the company in Germany will likely fail because of the loss of critical enterprise elements, even though reorganization would preserve more value overall.
- *Legal uncertainty and financing costs:* Financial creditors can encounter difficulties in enforcing their claims ex post, given the differences in the treatment and ranking of secured claims across jurisdictions. For instance, a German bank holding a "global cession of claims" (security) over the company receivables could realize that this security interest is recharacterized when applied to receivables arising from the French or Polish establishments. The ranking of secured claims presents differences in the three laws. Anticipating such uncertainty, creditors may raise lending spreads ex ante or restrict cross-border lending altogether.
- *Labor and social claims fragmentation:* Employees would have access to different wage insurance plans and would have different labor contract conditions and wage claim priorities under each law, further complicating coordinated restructuring and increasing administrative and legal costs. The priority claims of workers in each country are enforced against a different asset pool.

In economic terms, divergence in insolvency laws transforms what should be a collective value-maximization problem into a coordination failure. A unified, predictable, and rescue-oriented insolvency framework can mitigate these incentives, facilitate cross-border coordination among creditors, and improve overall value preservation.

Source: IMF staff elaboration.

Illustrative model simulations suggest that such a regime could raise EU GDP by around 3.3 percent over 10 years, with the impact rising to 4.4 percent over 20 years, reflecting mutually reinforcing factors in entry, financing, and restructuring frictions. Lower entry and compliance costs support the creation of new firms, flexible capital structures strengthen access to risk capital, and predictable restructuring preserves value and lowers the risk premium embedded in financing costs. Taken together, these channels help convert innovative ideas into scalable EU-wide business operations and back them with deeper pools of finance, supporting higher productivity and output over time. The estimated GDP gains correspond to almost 15 percent of the current EU-US hourly labor-productivity gap.

The remainder of the paper is structured as follows. Section 2 diagnoses the problems with the status quo patchwork of national enterprise legal frameworks in the EU, documenting how legal and regulatory fragmentation constrains firm entry and cross-border scale-up, with particularly adverse effects on start-ups and fast-growing firms. Section 3 develops the core design of the proposed regime, identifying three "must-have" pillars—digital incorporation, flexible capital structures, and a unified, insolvency framework. Section 4 quantifies potential macroeconomic gains from a 28th regime featuring the three must-have pillars. Section 5 explains why the 28th regime should be ideally established through EU regulation to avoid national-level "gold plating" modifications that would introduce fragmentation. Sections 6, 7, and 8 discuss eligibility requirements, implementation sequence, and institutional arrangements to support uniform application, respectively. Section 9 concludes.

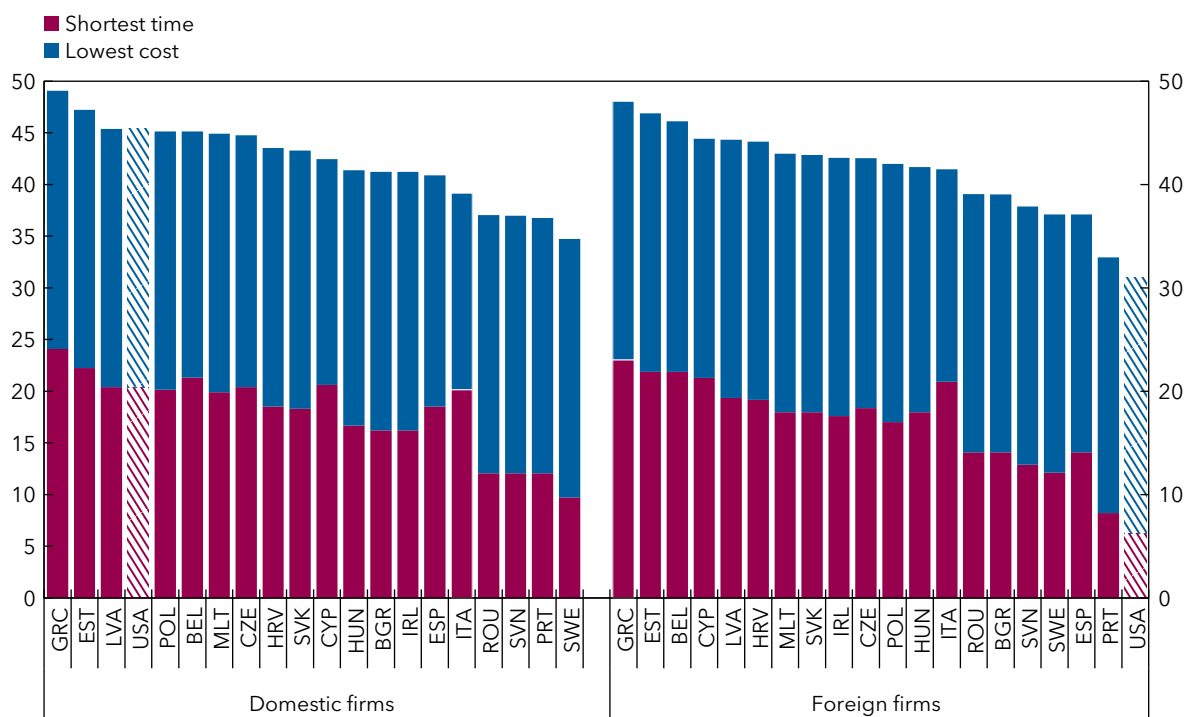
2. Diagnosis: Legal and Regulatory Hurdles Impede Firm Entry and Cross-Border Scale-Up in Europe

Incorporation procedures remain uneven across EU member states, creating frictions already at the entry stage. Though EU-level initiatives have promoted digitalization and faster company formation, the time and cost of incorporation continue to vary widely across countries, despite recent progress. Under the EU Startup Nations Standards, virtually all member states have committed to a benchmark of company registration within one day and at a cost below €100 for start-ups (Europe Startup Nations Alliance 2025). Figure 1 illustrates the dispersion across EU member states in both the time and cost required to incorporate a firm. These differences imply that firms encounter varying entry conditions depending on where they incorporate, even before attempting to scale across borders.¹² This issue may result in faster and less costly creation of start-ups in some member states than in others.

Figure 1. Components of Business Entry

Operational Efficiency—Business Entry Components

(Scores, 0–50; higher scores indicate less time-consuming or less costly business entry)



Sources: World Bank Business Ready 2025; and IMF staff calculations.

Note: Data labels in the figure use International Organization for Standardization (ISO) country codes.

¹² Analyzing incorporation processes for standard limited liability companies, there are stark differences between countries across the EU (see Annex 1).

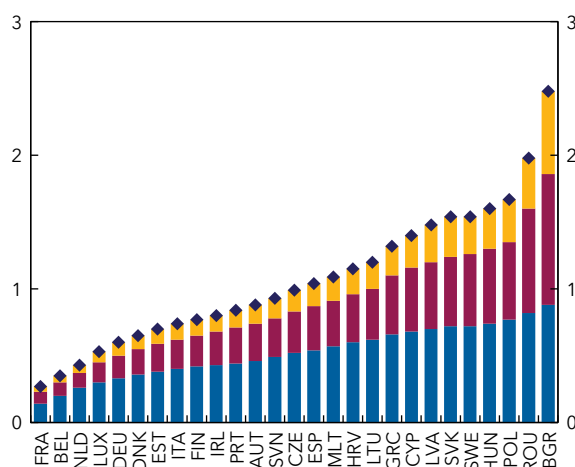
Companies seeking to expand operations across the EU single market face recurring legal and administrative frictions stemming from the coexistence of 27 distinct enterprise regimes.¹³ Establishing a physical presence—through subsidiaries, branches, or cross-border mergers—typically requires separate registrations, ongoing compliance with different reporting and disclosure rules, and continued interaction with multiple legal and administrative systems. These are not one-off costs at entry but repeated compliance and advisory expenses that scale with the scope of cross-border activity. Legal and administrative costs therefore rise disproportionately for firms operating in various member states, as cross-border transactions require specialized advice on several legal systems rather than a single domestic framework. For small and medium enterprises (SMEs) with limited resources, these recurring costs divert attention and resources away from productive investment and growth (OECD 2024), acting as a persistent deterrent to cross-border expansion within the EU. Survey evidence from the EU is consistent with this diagnosis: Europe’s SMEs identify regulatory obstacles or administrative burden as their main problem (64 percent of Eurobarometer respondents). Among the barriers to cross-border expansion, SMEs highlight the divergent business environments (33 percent) and unclear rules (30 percent) (Eurobarometer 2025). Although regulatory burdens are a common concern for SMEs globally (BIAC 2023; OECD 2025), the EU’s legal fragmentation is distinctive in that it multiplies compliance requirements across jurisdictions within what is formally a single market, amplifying these concerns for firms wishing to scale up across borders within the EU.

Figure 2. Insolvency Outcomes

1. OECD Insolvency Indicator–EU Member States

(2022; scores, 0–1; lower scores indicate more favorable frameworks)

- Treatment of failed entrepreneurs
- Prevention and streamlining
- Restructuring tools
- ◆ Total score

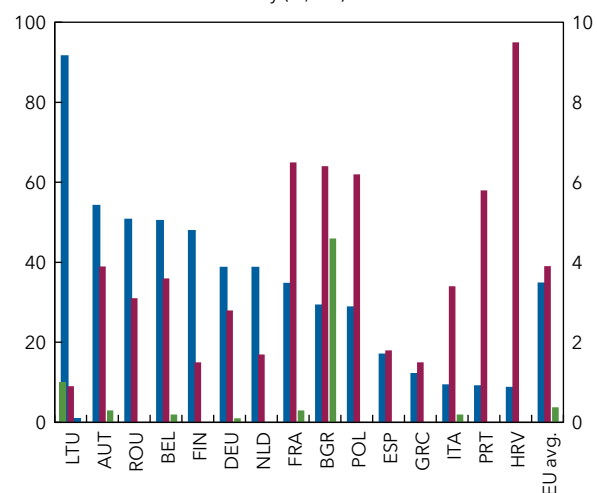


Source: OECD.

2. EU Benchmarks, Firms

(2023:Q3, weighted average)

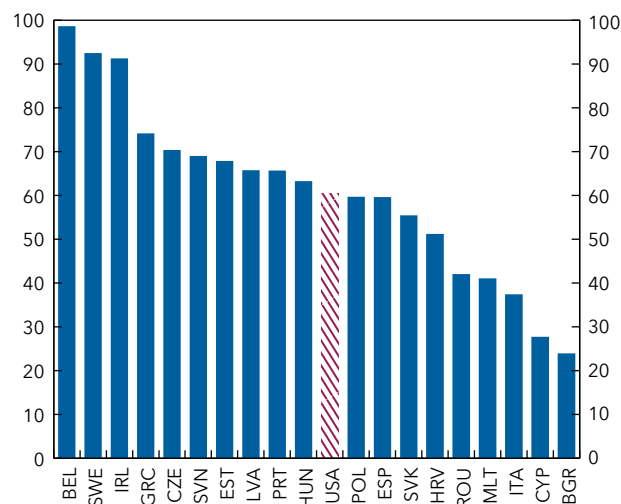
- Net recovery rate (%)
- Time to recovery (years, rhs)
- Judicial cost to recovery (% , rhs)



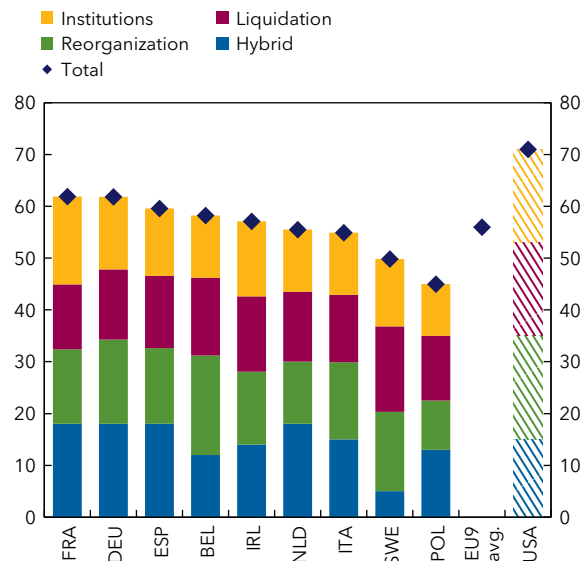
Source: European Banking Authority (EBA), 2025 Report.

(continued)

¹³ See Annex Table 1.1 for divergences in company law.

Figure 2. Insolvency Outcomes (continued)**3. Operational Efficiency of Resolving Judicial Insolvency Proceedings***(Scores, 0–100; higher scores indicate more efficient and less costly proceedings)*

Source: World Bank Business Ready, 2025.

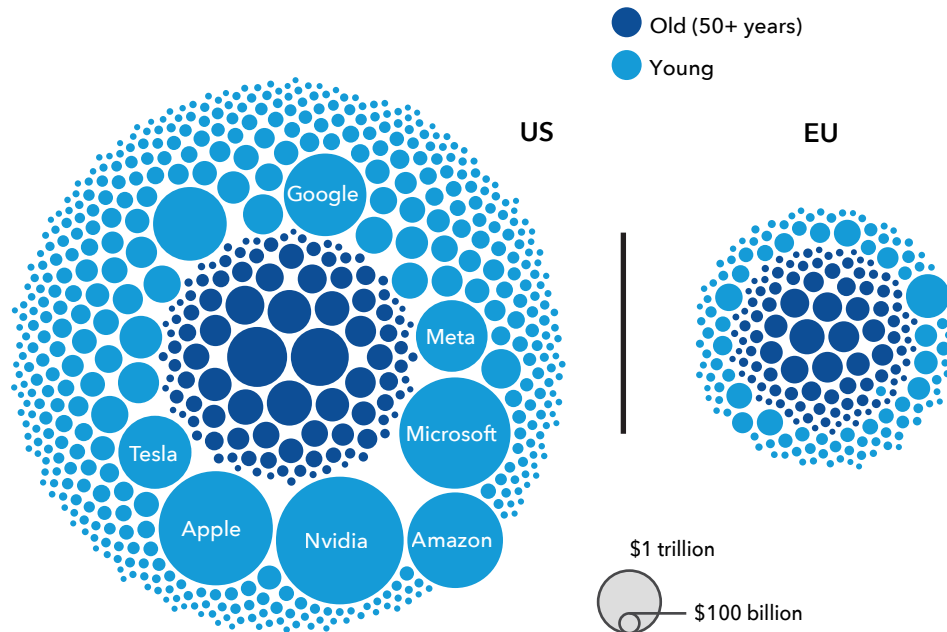
4. IMF Crisis Preparedness Indicator, 2023*(Scores, 0–80; higher scores indicate greater capacity to tackle a corporate debt crisis)*Source: International Monetary Fund (2025), *Corporate Sector Vulnerabilities and High Levels of Interest Rates*.

Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. EU = European Union; IMF = International Monetary Fund; OECD = Organisation for Economic Co-operation and Development.

Legal fragmentation disproportionately affects start-ups and scale-ups. These firms often operate with limited internal legal capacity. Facing multiple legal regimes, they may delay or forgo cross-border expansion altogether. EU start-ups also face financing constraints relative to their US counterparts operating under unified frameworks. VC investment in the EU remains below US levels on a per capita basis (Arnold, Claveres, and Frie 2024; Invest Europe 2024; Arnold and others 2025), with fragmented legal frameworks further contributing to exit uncertainty (EPRS 2025). As illustrated in Figure 2, insolvency outcomes differ across EU member states in terms of recovery rates and resolution efficiency. A company with assets located in various member states can have difficulties in keeping its going-concern value, and assets may be distributed among creditors according to the national—and divergent—ranking of claims. This results in a higher likelihood of premature liquidation, value destruction, and loss of going-concern value. Consistent with this, cross-country indicators of crisis preparedness also point to weaker and more uneven insolvency capacity in Europe than in more integrated jurisdictions, such as the United States (Figure 2). The quality of insolvency regimes (in terms of overall efficiency and protection of creditor rights) is found to significantly affect credit costs and access to finance (Djankov and others 2008; Armour and others 2009). Moreover, foreign direct investment is affected by legal uncertainty: regulatory fragmentation across member states raises transaction costs and reduces the EU's attractiveness as a destination for cross-border investment, pushing firms to scale up in more integrated jurisdictions outside the EU. This leads to a corporate landscape characterized by under-scaling of dynamic firms, slower innovation, and subdued productivity growth (Arnold and others 2025). These cumulative entry, scaling, financing, and restructuring frictions are reflected in firm outcomes: compared with the United States, Europe has far fewer large firms able to scale to continental size (Figure 3).

Figure 3. US Mega Firms and Dwarf European Ones*(Market capitalization by firm, billions of US dollars)***Young US companies grow faster and become larger than in Europe**

Market capitalization by firm, billions of USD



Source: Orbis; and IMF staff calculations.

Note: Sample includes firms with more than \$10 billion market capitalization as of January 2026, excluding financials and insurers.

3. Core Design Features of the 28th Regime

A. The Must-Haves: Specific Design Elements

The proposed 28th regime is built around a limited set of core design choices that are critical for reducing legal fragmentation along the firm's life cycle and enabling cross-border scale-up within the EU. Rather than attempting comprehensive harmonization of enterprise law, the regime focuses on areas where uniform rules can deliver the largest gains by lowering fixed costs, reducing legal uncertainty, and improving access to finance. First, a *digital-first framework for company formation and reporting* ensures fast, low-cost entry and standardized disclosure under a single rulebook. Second, *flexible capital structures* align company law with the financing needs of start-ups and scale-ups, particularly in early and growth stages (pre-initial public offering). Third, a *unified, rescue-oriented insolvency framework* improves predictability, reduces risk premiums, and facilitates value preservation in distress. By allowing firms to operate under a single EU legal identity and a coherent rulebook throughout their life cycle, the regime enables expansion, reorganization, and restructuring across member states without repeated reincorporation or legal discontinuity. The following subsections set out the specific legal and institutional design choices under each core element.

Formation: Fast, Low-Cost Entry into the EU Market—The Digital Backbone

Under the 28th regime, a new optional EU-wide company form¹⁴ can be created digitally through a single-entry point and registered in any member state. Incorporation would be fast, low cost, and subject to minimal capital requirements, reflecting the limited role of paid-in capital in protecting creditors (Klapper, Laeven, and Rajan 2006).

- *Fast and low-cost incorporation:* Registration would be fully online using standard templates, enabling rapid processing and inexpensive formation. Firms could customize their articles of association, subject to a small set of mandatory provisions (such as name, registered office, objects, capital structure, and basic governance rules).
- *Formation costs and minimal capital requirements:* Formation costs would be capped at a modest level, substantially lower than requirements in many member states. Minimal (€1) or no minimum capital requirement reflects modern recognition that creditor protection is better achieved through better credit quality monitoring by lenders and better disclosure by borrowers than by statutory minimum (paid-in) capital. This lowers entry barriers, especially for start-ups that often lack substantial paid-in capital and cash, with their value tied more to intellectual property, intangible assets, and human capital.

Operation and Flexible Financing: Rules That Fit High-Growth Firms

Under the 28th regime, firms would benefit from flexible capital structures and legal certainty for modern financing instruments, supporting start-up formation and cross-border scaling. The operational framework of the 28th regime would be designed to ensure transparency for investors, creditors, and public authorities, while keeping compliance costs proportionate to firm size and activity.

- *Flexible capital structures for growth:* Firms would be free to issue multiple share classes, with different voting, dividend, and liquidation rights. This flexibility enables sophisticated VC and growth financing structures commonly used in global innovation hubs (see Cumming 2005). Contributions in kind could

¹⁴ The company law pillar of the 28th regime would build on core elements of the European company law *acquis*, while being sufficiently flexible to adapt to the needs of start-up and scale-up companies (see Annex 5 for details). The objective is to provide a simple, low-cost, and predictable framework that supports innovation, investment, and cross-border growth, without imposing governance structures designed for mature firms.

include not only cash and assets but also intellectual property (patents, copyright, know-how), allowing founders to receive equity without upfront cash contributions. The regime would also explicitly recognize instruments such as simple agreement for future equity contracts (see footnote 8), providing legal certainty for financing tools currently unevenly treated across EU jurisdictions.¹⁵ Flexible capital structures also imply that multiple governance models are possible (for instance, through the deployment of various classes of shares, nonvoting shares, or other instruments, depending on the need to ensure founders' control or ensure expansion with outside investors). More broadly, offering such flexible instruments would contribute to deepening EU capital markets and advancing the SIU (Brandão-Marques and others 2026).

- *Proportionate reporting and disclosure requirements:* Firms could choose between internationally recognized accounting standards such as International Financial Reporting Standards (used by listed EU companies) and the national accounting standards of registered office (generally accepted accounting principles), subject to consistency over time. This flexibility supports cross-border comparability where needed—such as firms seeking international investment—without forcing smaller companies into unnecessarily complex reporting systems. Reporting and auditing requirements would scale with company size, in line with existing EU thresholds (EU Accounting Directive, Directive EU 2013/34), avoiding excessive fixed costs for start-ups and small firms. Digital filing to a central EU register with automatic forwarding to national registries and public access through Business Registers Interconnection System would ensure transparency while streamlining compliance. This “file once, use everywhere” approach reduces duplication while maintaining public access to core company information. Beneficial ownership registers (reporting shareholders exceeding 25 percent or exercising control rights) would connect to EU-wide beneficial ownership systems for anti-money laundering purposes. Companies would submit a light annual return confirming basic company information such as their registered office, management, ownership structure, and cross-border activity status.

Distress and Exit: Predictable, Rescue-Oriented Insolvency¹⁶

Insolvency law is the “contract enforcement backstop” of the credit market. Under the 28th regime, a single insolvency framework would reduce risk premiums, support cross-border lending, and make rescue outcomes more predictable. Moreover, for a unified insolvency regime to deliver predictability and lower financing costs, it must be clear not only what the EU rules are but also when national law applies—and when it does not.

- *Insolvency aspects would represent a 28th regime's greatest value added over national systems:* Twenty-seven different insolvency regimes create uncertainty for firms and investors that raises financing costs and discourages cross-border expansion. A company with establishments and assets located in various EU states faces enormous challenges in keeping the company functioning as a going concern in case of distress, and creditors can seize assets under various national laws. This might mean that creditors of the company operating in two (or more) insolvency regimes might rush to maximize their recovery rates at the expense of the others, forcing a company into insolvency rather than pursuing a restructuring where the company survives and deadweight costs are minimized. Financing is also complicated by the fact that assets and establishments can be relocated, and with that the rights of creditors change. The possibility of creating an optional insolvency regime, coexisting with national insolvency regimes, has been supported by legal experts and economists, on the grounds that it would increase predictability and suppress the negative effects derived from cross-border activity and asset dispersion (Eidenmüller 2017; Becker and Oehmke 2025).¹⁷

¹⁵ See ELI 2025, emphasizing the importance of addressing the financing gaps in the corporate life cycle. See also Giudici, Agstner, and Capizzi (2022) for details on the variety of approaches used for financing start-ups, which require a higher degree of flexibility than currently prevailing in most European corporate law regimes.

¹⁶ See Annex 5 for more details.

¹⁷ See also Mucciarelli (2013) for an analysis of the advantages and disadvantages of the “choice model” versus the “harmonization model.”

- *The framework would be rescue oriented, emphasizing early intervention, temporary protection from enforcement during negotiations, and structured agreement among creditors and shareholders:* It would reflect established EU law and the international standard¹⁸ while remaining proportionate to firm size.¹⁹ Entry into insolvency and preventive procedures would be governed by a unified set of triggers centered on cash-flow distress, complemented by balance sheet and likelihood-of-insolvency criteria. This reduces jurisdictional uncertainty and encourages timely action. When rescue is not viable, liquidation would prioritize going-concern sales (that is, sale of the business as a whole, as opposed to piecemeal liquidation) and modern tools (such as digital auction platforms) to maximize value. For enterprise groups, coordinated mechanisms and procedures across affiliated entities (such as joint planning, information sharing, and aligned timelines) would allow efficient restructuring or resolution of the group's business.
- *Recognizing political constraints, the regime would harmonize core aspects of creditor treatment while allowing national law to determine the ranking of tax and other public claims:* To offset remaining heterogeneity, member states would publish priority rules in a common EU database, improving ex ante risk assessment.

Supplementary Rules and Interfaces with National Law

- *No insolvency regime operates in isolation:* Even a comprehensive EU-level framework must interact with national legal systems. For this reason, it is necessary to establish how matters not explicitly covered by the optional regime will be addressed. The regime might incorporate certain aspects of national law by reference, or it might aim to be comprehensive and self-contained. However, it is highly unlikely that the 28th regime can cover insolvency issues in the same detail as national laws, and even if that were possible, there are multiple connections between insolvency and other areas of the law that necessarily need to be supplemented (that is, contract law, secured transactions law, labor law, tax law, among others). To the extent that the 28th regime eventually also covers corporate, tax, and labor law aspects, the regime can come closer to the ideal of autonomous application, but many other areas of the law need to be considered when resolving insolvency issues.
- *Supplementary rules:* Determining the applicable law for matters not explicitly covered by the optional regime could prove complex. No insolvency regime can address every possible issue, and interfaces with national law would inevitably be required. Clear rules would be needed to determine which national law applies to fill the gaps and how conflicts between the optional regime and mandatory provisions of national law would be resolved. Typically, the national insolvency regime that should apply would be the one corresponding to the company's main center of operations (or center of main interests). Mandatory provisions in the national insolvency law should not override the insolvency provisions in the 28th regime, but mandatory provisions in other areas of the law could interfere in the insolvency process. Some matters could be left to be determined by reference to national law, especially procedural aspects (documentary requirements, formality in pleadings, rules of evidence). However, it must be considered that leaving out critical issues of insolvency law, as has happened in the negotiation of some European legal texts, would significantly undermine the positive effects of the regime.

¹⁸ The standard on insolvency is composed of the United Nations Commission on International Trade Law (UNCITRAL) recommendations included in the *Legislative Guide on Insolvency Law* (https://uncitral.un.org/en/texts/insolvency/legislativeguides/insolvency_law) and the *World Bank Principles for Effective Creditor/Debtor Regimes* (<https://documents1.worldbank.org/curated/en/391341619072648570/pdf/Principles-for-Effective-Insolvency-and-Creditor-and-Debtor-Regimes.pdf>).

¹⁹ Specifically, this design would be aligned with best practices from the EU Restructuring Directive (Directive EU 2019/1023), the Insolvency Directive (2026), and the UNCITRAL Legislative Guide on Insolvency Law and the World Bank Principles, adopting a modern, rescue-oriented approach (see also Garcimartín and Paulus 2025).

Scaling across Borders: Seamless Mobility inside the Single Market—a Key Benefit of the 28th Regime

The 28th regime would allow firms to relocate, merge, or restructure across member states without losing legal personality, avoiding costly legal resets. The governance framework would be designed to strike a balance between flexibility for growing firms and basic protections for investors, creditors, and workers. The aim is not to impose a single “best” governance model but to allow firms to choose arrangements that fit their size, ownership structure, and stage of development.

- **A new EU-wide company form:** The regime would create a new optional company type—an EU-level limited liability company—offering limited liability and full legal personality from registration, with the capacity to sue and be sued, own property, and enter into contracts. Formation would occur through a single EU portal connected to national registries through the Business Registers Interconnection System, with companies choosing their registered office location in any member state. This would eliminate the need to navigate multiple national incorporation systems when operating across borders.
- **Flexible management structures—board structure:** Firms would be able to choose from a range of management models (including a single director or a small board) that may evolve as the company grows. This flexibility would avoid forcing young or founder-led companies into governance models designed for large, mature corporations, while still allowing for more complex structures as firms grow or attract institutional investors. Minimum governance requirements would remain light—limited to core elements necessary for accountability and transparency—thereby reducing fixed compliance costs in the early stages, while enabling more complex arrangements as firms scale or ownership becomes more dispersed.²⁰
- **Managerial incentives and safeguards—director duties:** Company directors would be expected to act in the interests of the firm, benefiting from a business judgment rule that protects good faith, informed business decisions, thereby discouraging excessive risk aversion and supporting innovation. At the same time, as firms approach financial distress, additional safeguards would apply with directors’ duties progressively shifting toward preserving the value of the firm and protecting creditors’ interests.²¹ This calibrated approach would help preserve trust in credit markets without constraining normal entrepreneurial risk taking.²²
- **Efficient shareholder decision making:** Default shareholder rules would be simple and familiar—such as one share, one vote—but firms could adjust these rules in their articles of association to accommodate different investor arrangements. Routine decisions would require a simple majority, whereas more fundamental changes would require broader shareholder agreement. The regime would allow virtual meetings and written resolutions as standard practice, reducing coordination costs for firms with internationally dispersed investors.
- **Worker participation:** Worker participation rules—including board-level representation where applicable, as well as information, consultation, and works council rights—would, as a starting point, follow those of the member state where the company has its registered office. This pragmatic approach would avoid creating a new EU-level worker participation system from the outset, while ensuring that existing national models are respected. Safeguards would prevent firms from using the regime to weaken established worker rights through relocation or legal restructuring. The main safeguard would be a “before and after” antireduction principle: a transfer of the registered office, or any conversion, merger, or comparable restructuring, could not be used to diminish levels of participation that applied before the operation. This mirrors the

²⁰ In practice, this could include streamlined management structures (for example, one or two directors or a very small board), simplified shareholder decision making through written or virtual meetings, and proportionate requirements for audit, risk management, and internal controls that scale with firm size and ownership dispersion.

²¹ In this phase, specific safeguards—such as liability for wrongful trading where directors continue operations despite clear insolvency, combined with safe-harbor protections for timely restructuring efforts undertaken on the basis of professional advice—would limit risk shifting to creditors while encouraging early and responsible intervention.

²² This is consistent with the international standard (see World Bank Principles for Effective Insolvency and Creditor/Debtor Regimes, Principle B2, and UNCITRAL *Legislative Guide on Insolvency Law*, part IV (2013)).

safeguard already embedded in the European company (SE) framework and in the cross-border mobility provisions for limited liability companies, and it addresses the principal weakness of a registered-office rule, which is the easy relocation of the registered office and the potential lack of connection with the place where the workforce is situated. Because the purpose of protecting participation is to protect the workers themselves, a rule anchored solely to the registered office would always remain exposed to regulatory arbitrage. Where a restructuring or a transfer of the registered office would otherwise reduce participation, a negotiation mechanism modeled on the special negotiating body employed in the European company framework would apply, under which employee representatives and management agree a participation arrangement, with statutory standard rules applying as a fallback should the negotiation fail. Strong safeguards for worker participation rights, effective at blocking regulatory arbitrage and legal maneuvers, will be necessary for the success of the new company form.²³

²³ See Meyer-Erdmann and Hoffmann 2025, for a clear list of issues of concerns from the perspective of workers' protection.

4. Potential Gains: Illustrative Model Simulation

To illustrate the potential macroeconomic gains from a 28th European enterprise regime, we use simulations based on the International Monetary Fund's Global Integrated Monetary and Fiscal Model (GIMF) (see Kumhof and others 2010; Anderson and others 2013). GIMF is a multicountry dynamic general equilibrium model with nominal and real rigidities, endogenous investment and capital accumulation, and rich financial channels. It is well suited to assessing medium-term effects of structural reforms, as it allows policy-induced changes in insolvency costs, market competition, and labor and product productivity to propagate through investment, firm dynamics, employment, and output over time.

The key idea is to represent the 28th regime as a set of structural changes that reduce legal fragmentation and improve insolvency predictability for firms. These changes are calibrated using quantitative guidance from the literature and recent EU evidence. The calibration focuses on three channels (see Box 2). Taken together, these channels allow the model to capture how the three “must-have” elements of the 28th regime—digital entry, flexible finance, and predictable insolvency—reinforce each other. Lower financing costs encourage investment, easier entry and expansion strengthen competition and reallocation, and improved insolvency outcomes reduce uncertainty for entrepreneurs and their creditors, supporting risk taking and scale-up.

Box 2. Mapping the 28th Regime into the Global Integrated Monetary and Fiscal Model (GIMF): Channels and Calibration

This box describes qualitatively how the different layers are mapped into the model. The quantitative assumptions are described in detail in Annex 7.

Lower entry costs promoting the entry of more dynamic firms and increasing productivity (digital backbone pillar): Digital-first incorporation and a single rulebook lower fixed entry costs and encourage competition. We map this channel in GIMF as a gradual increase in total factor productivity (TFP) through greater firm dynamism. Barseghyan (2008) provides a benchmark for quantifying the macroeconomic effects of entry barriers, finding that higher entry costs significantly reduce output per worker and do so by lowering TFP. An increase in entry costs equal to one-half of their standard deviation is estimated to decrease TFP by 22 percent. More recent evidence from business-entry reforms is consistent with this channel. Bruhn (2011) finds that a major simplification of business registration in Mexico is associated with a 5 percent increase in registered firms.

Deeper capital markets and reduced financing frictions (flexible capital structures pillar): Flexible capital structures and standardized financing instruments improve access to finance through equity issuance, especially for venture capital. More equity financing should also lower the financial intermediation costs. In fact, a report by the European Investment Bank (EIB Investment Report 2024/2025) finds that equity-financed firms are 13 percentage points more likely to innovate, and 6 percentage points more likely to scale up in the next three years. The deepening of the pillar is then modeled through two channels: lower financing costs for entrepreneurs and higher TFP from more firms accessing the equity market. (1) Lower borrowing costs/reduced dispersion in financing spreads: broader access to financing and more standardized corporate rules reduce due diligence and contracting

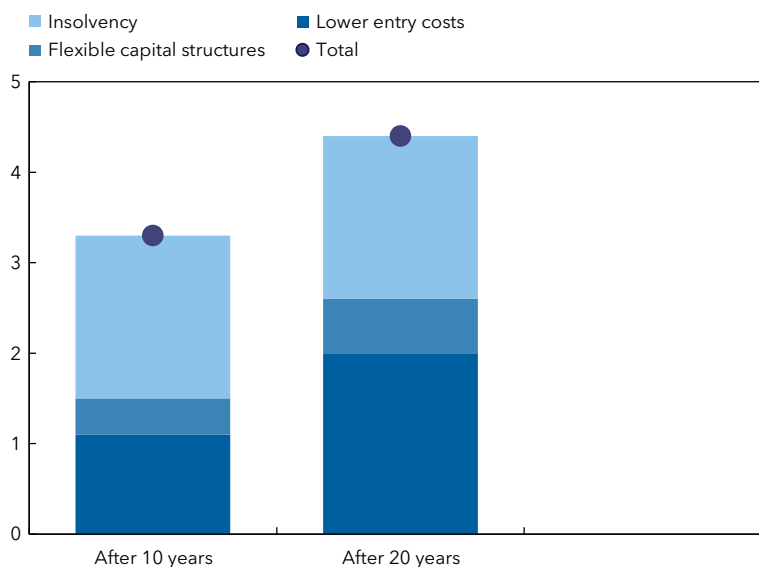
costs, compressing the dispersion of corporate borrowing spreads across European Union countries (implemented in GIMF as a financing wedge reduction). (2) Higher venture capital investment raises TFP through more firm creation, calibrated using a chain of elasticities from the literature.

Lower corporate risk premiums resulting from improved insolvency predictability (insolvency pillar): By lowering expected losses and shortening recovery times for creditors, the unified, rescue-oriented insolvency framework reduces the corporate risk premium for investors. In the model, the insolvency recovery cost is reduced, which reduces the credit risk compensation investors seek, which lowers borrowing costs and promotes higher investment, and faster capital deepening over time.

Source: IMF staff elaboration.

Figure 4 summarizes the simulated macroeconomic effects of the three core pillars for the 28th regime, reported as deviations from baseline GDP after 10 and 20 years. Individually, each pillar generates positive gains.

Figure 4. Estimated GDP Impact of 28th Regime Pillars after 10 and 20 Years
(GDP impact, percent)



Source: IMF staff calculations.

The digital backbone pillar—capturing lower and more uniform entry costs—raises GDP by about 1.1 percent after 10 years.²⁴ By reducing fixed costs and administrative frictions, digital-first incorporation supports firm dynamism, with gradual but durable effects on productivity and output. We assume that all newly created firms adopt the 28th regime and that entry costs under this regime are as low as those in the best-performing EU country. The economic gains operate primarily through higher total factor productivity (TFP), reflecting greater competitive pressures on incumbents and more innovation because of strengthened firm entry.

²⁴ This pillar maps the business regulation layer in domestic structural reforms from the IMF *Regional Economic Outlook* (October 2025). The impact on total factor productivity is estimated using the WB's entry cost data for the different countries and the elasticities as in Barseghyan (2008). It is assumed that the entry costs in the EU drop to the level in the lowest-cost European country in the sample.

The flexibility in capital structures allows more funds to be directed to VCs increasing the economy's productivity and output. It is assumed that the flexibility in capital structures induces more funds to be allocated to VCs. We map increased VC into higher TFP using a chain of elasticities (following Arnold and others 2025). First, we assume that EU pension funds' VC allocations rise from 0.02 percent of assets under management to about 0.5 percent (holding assets under management constant), with low-VC countries partially catching up toward leading EU performers—implying a material increase in VC at the EU level. Second, we follow Mollica and Zingales (2007), who find a 10 percent increase in VC investment raises the number of newly created firms by 2.5 percent. Third, we apply Gourio, Messer, and Siemer (2016), who find that a one-standard-deviation shock to start-up entry raises TFP by about 0.09 percent after four years. We implement the implied TFP path in GIMF as an increase in productivity. Overall, we assume that the 28th regime closes 50 percent of the gap in the level of financing from US pension and insurance funds' VC investments, which increases economy-wide TFP by 0.3 percent (Arnold and others 2025). Moreover, we assume that the broader access to equity financing reduces financing costs across EU countries. Specifically, we assume that financing cost differentials between each EU country and the lowest-cost country are halved from current levels. This compression in financing spreads is equivalent to 30 basis points on average across the EU. Overall, the combination of higher TFP and lower financing costs increases GDP by 0.4 percent after 10 years.

Harmonizing insolvency frameworks can close gaps in recovery rates across EU member states, meaningfully lower corporate risk premiums, and support stronger investment and GDP growth. Recent evidence from the European Banking Authority's benchmarking of national loan enforcement frameworks—based on loan-level data from EU banks—shows large cross-country dispersion in recovery rates, time to recovery, and enforcement costs. According to this European Banking Authority's analysis, the average gross recovery rate in the EU-27 is about 40 percent. The better quality and convergence in insolvency regimes can have meaningful economic impacts. Model simulations suggest that if the gross recovery rates converge to the highest level in Europe, which is 90 percent in Luxembourg, corporate risk premiums would fall by 130 basis points at the impact and stabilize at 50 basis points after 10 years. The lower cost of financing promotes a meaningful 5 percent increase in the level of investment and 1.8 percent increase in GDP after 10 years.

Overall, the simulations suggest that introducing a 28th European enterprise regime could raise GDP by 3.3 percent over 10 years, with the impact rising to 4.4 percent over 20 years. Although each channel generates relatively modest effects in isolation, their interaction produces larger and more persistent improvements in output, productivity, and employment over the medium term, particularly in sectors and firms with strong cross-border scaling potential. Although the estimates are illustrative and depend on effective implementation and uptake, they indicate that reducing legal fragmentation along the firm's life cycle could yield meaningful macroeconomic dividends. For context, our estimate (around 3.3 percent of GDP over 10 years) would correspond to almost 15 percent of the EU-US hourly labor-productivity gap, underscoring that even partial progress on a targeted integration reform can close a meaningful share of Europe's productivity shortfall. This is a conservative estimate that does not include economic gains from lower trade barriers within the EU.

The scope of the insolvency framework plays a central role in these estimated gains. Compared with more limited approaches that focus primarily on corporate law harmonization, a comprehensive, rescue-oriented insolvency regime substantially amplifies the macroeconomic impact by improving predictability for investors and creditors and facilitating value-preserving restructuring. Based on illustrative staff estimates, excluding the insolvency channel would reduce the 10-year GDP impact to about 1.5 percent. This underscores the importance of a robust, rescue-oriented insolvency framework in unlocking the reform's full economic potential.

The 28th regime, by allowing seamless cross-border mobility, will generate gains through harmonization of legal and organizational barriers that impede the scaling-up of firms across borders. The International Monetary Fund's *Regional Economic Outlook* (October 2025) finds that the lack of harmonized rules is an

important barrier to EU trade. Specifically, it estimates intra-EU trade barriers to be around 44 percent for goods and 110 percent for services. The analysis estimates that removing all these sectoral barriers could potentially increase labor productivity by 5.7 percent (closing around 25 percent of the EU-US hourly productivity gap).²⁵ These numbers are a useful benchmark to assess the costs of the lack of harmonized rules. The 28th regime should help reduce some of these sectoral barriers and contribute around one-sixth of the closing of productivity gap.

Over the longer term, the gains could be even larger, potentially reaching around 4.4 percent of GDP. Several elements of the reform generate dynamic effects whose full benefits will materialize only gradually. In particular, lower entry costs are likely to increase firm dynamism by facilitating the entry and exit of firms, strengthening competition, and allowing more productive firms to expand and gain market share. Similarly, greater flexibility in capital structures could improve access to financing for start-ups, fostering innovation and enabling new firms to scale up production and productivity over time. As these mechanisms unfold, the cumulative effects on investment, innovation, and resource reallocation could become substantial.

²⁵ See IMF staff measures of the gap at <https://www.imf.org/en/blogs/articles/2026/03/12/europe-can-regain-its-productivity-edge-by-scaling-up>.

5. Legal Basis: Established through EU Regulation

Ideally, the 28th regime should be established through an EU regulation²⁶ (or a set of regulations) instead of a directive.²⁷ This regulation should be designed to enable businesses to avoid cross-border barriers and benefit from a truly integrated business environment (see Garcimartín and Paulus 2025). By using regulations instead of directives, the regime would have direct applicability in all member states without national implementation, ensuring uniform interpretation.²⁸ This is consistent with the previous experiences in the development of supranational EU corporate forms, although it may require unanimity at the Council and the consent of the European Parliament. Establishing a new corporate form through a maximum harmonization directive is a second-best solution that could avoid the requirement for unanimous voting but cannot rule out cross-country differences entirely.

The 28th regime would operate alongside the 27 national regimes—a parallel alternative that companies can voluntarily choose. This is fundamentally distinct from harmonization. Harmonization through directives requires member states to align national laws toward convergence, whereas the 28th regime would create a new EU-wide option without requiring any changes to national systems. Companies that select the regime would benefit from unified rules; those preferring national forms would remain free to use them. Over time, competitive dynamics could drive improvements in both the 28th regime and national systems—through market-based federalism rather than through political negotiation.

²⁶ In favor of adopting a regulation for the 28th regime, see EBN 2025; Allied for Startups, EU Inc., and ESN, 2026.

²⁷ A regulation could be based on Article 114 Treaty on the Functioning of the European Union (TFEU) (internal market harmonization), which requires qualified majority voting in European Council and ordinary legislative procedure with European Parliament (EP). However, it can be argued that this measure is not strictly a harmonization measure but an alternative to harmonization, in which case the regulation would have to be anchored on Article 352 TFEU (legal basis for EU actions aiming to attain one of the EU objectives in the absence of any specific legal basis in the Treaty), which requires unanimous approval at the Council and the consent of the EP. If sufficient support proves impossible, enhanced cooperation (minimum nine member states under Article 20 Treaty on European Union and Articles 326–334 TFEU) could provide a viable alternative, allowing a coalition of willing states to proceed while others join later. Garcimartín and Paulus (2025) favor Article 114 TFEU, and they also consider Article 352 TFEU, which was used for the statute of the European company (in that case, it was Article 308 of the EC Treaty of equivalent content), and that has been considered by the European Court of Justice as the proper basis for any supranational corporate form (Case C-436/03—Parliament v Council, Grand Chamber, May 2, 2006, on the *Societas Cooperativa Europaea*). The EP commissioned a report (2025) assessing all possible options and indicating the various provisions that can justify measures in this area (especially Article 114 TFEU) and highlighting that Article 352 TFEU could be invoked for a regulation, with application of the unanimity requirement. The EC proposal of March 2026 is based on Article 114 TFEU, and this has raised an intense debate about the proper basis for the proposal and, specifically, the consistency between the legal basis and the contents of the proposal, including the recourse to national law (see ECLE 2026). A directive could be based on both Article 50 TFEU (freedom of establishment) and Article 114 TFEU (internal market harmonization). Article 50 TFEU demands that measures related to the freedom of establishment are included in directives, but the fact that the proposed regime is that of a supranational corporate form leads to the application of Article 352 TFEU and the need for an instrument adopted by unanimity (Jaeger and Tokic 2026). The combination of features typical of a supranational corporate form and of an apparent harmonization in the EC proposal does not allow for a straightforward solution to the issue of the proper legal basis.

²⁸ The downside of adopting regulations is that it may require the unanimity of member states, which may be hard to achieve. The second-best option would be to adopt a directive or set of directives. This would benefit from the easier approval by qualified majority but presents the problem of a longer period for implementation, and the risk that the implementing national laws differ from each other. Differences should be minimized by framing the directives as “maximum harmonization directives,” that is, prohibiting member states from including additional requirements or procedures to those established in the directives” (EP 2026).

6. Eligibility and Opt-In/Opt-Out Rules

A cross-border element requirement can provide legitimacy. Opt-in should be possible both at incorporation and for existing companies, with safeguards to protect creditors and ensure stability of choice. To opt in, companies should demonstrate either (1) for existing companies, current cross-border activities in at least two member states (operations, sales, employees, assets), or (2) for new companies, a reasonable indication of intended cross-border activity over time,²⁹ without imposing rigid timelines or subjective assessments of business plans. This approach would provide political reassurance that the regime supports genuine single-market objectives, while remaining accessible to start-ups and scale-ups whose cross-border expansion paths are often uncertain and may evolve gradually.

The regime needs to be attractive for start-ups and scale-ups but should not impose size-based eligibility limits. Start-ups and scale-ups are most harmed by fragmentation because of limited resources and are critical for Europe's innovation economy. Design features of the proposed regime would make this voluntary, pan-EU legal framework attractive for such firms: low formation costs, modern financing instruments recognizing start-up realities, flexibility in governance arrangements, fast procedures, and digital-first processes. At the same time, large corporations may also find it beneficial. Therefore, it is important not to impose arbitrary SME thresholds—companies grow, requiring continuity of legal form, and network effects make the regime more valuable with broader participation.

Clear opt-in and opt-out rules are essential to ensure that the optional regime is both credible and flexible, without enabling opportunistic legal switching. Including rules on how and when parties could opt into the European regime, and whether this choice would be reversible (see Garcimartín and Paulus 2025) can provide a solid basis for defining the relation with national laws. Opting into the regime would be subject to safeguards for shareholders and creditors. Existing companies would be required to provide transparency and, where necessary, protection mechanisms to address potential adverse effects of the switch, such as changes in applicable legal rules. These safeguards are intended to preserve confidence in contractual and financing relationships when firms change their legal framework. Exit from the regime (opt-out) would be possible under equivalent conditions and procedures. Reversibility helps ensure flexibility over the firm's life cycle, whereas symmetric safeguards limit opportunistic switching that could undermine creditor rights or investor expectations.³⁰

The optional nature of the regime raises questions about strategic behavior, warranting a careful balance between flexibility and protection for vulnerable parties. The concern is that the 28th regime would be chosen primarily in cases where it benefits certain stakeholders at the expense of others. For example, VC investors may be better treated under the framework than under national law, and the same can happen with financial creditors as compared with trade creditors. The regime would present, inevitably, substantial

²⁹ This is deliberately flexible, but examples of such indications could include initial outreach to potential customers or partners in other member states, preliminary discussions with EU-wide investors, participation in cross-border accelerators, or planned provision of digital services accessible across multiple member states. This avoids subjective judgments while signaling genuine single-market orientation. Scott Morton and Veugelers (2025), for instance, argue that founders should have to demonstrate credible innovation and growth plans. The risk with this approach is that the regime may become riddled with bureaucratic hurdles.

³⁰ The safeguards for shareholders and creditors could be aligned with those established under the EU Mobility Directive (Directive (EU) 2019/2121), including the right to exit, with compensation for shareholders, and the right to receive adequate protection for creditors. Participation rights of workers would be protected on a similar basis. There can also be anti-abuse checks to block changes designed to jeopardize creditor claims, but the system could be significantly different from that introduced by the Mobility Directive, which performs a double legality control (state of origin and state of destination) and gives the competent authorities the power to block the transaction within a three-month period.

differences with the existing national regimes, which can be used to strategic advantage (for example, a move of a distressed enterprise to the 28th regime could be done with the primary goal of benefiting the interests of certain investors over that of other creditors, such as trade creditors or workers). The eligibility requirement discussed earlier could help provide safeguards to prevent “forum shopping.” The regime needs to be open and accessible so that companies across the EU are able to opt in with minimal complication. On the other hand, the decision to opt in for this new regime would need some stability, so that a reversal of the decision should be subject to time constraints and creditors’ consent (or adequate guarantees), similar to what European law foresees in situations of mergers or capital reduction. The design of the regime would need to balance flexibility with protection for vulnerable parties who might not have meaningfully consented to its application.

7. Implementation: A Phased Strategy

The proposed implementation of the 28th regime would be done in three stages. Company formation and structure, operations, cross-border mobility, and insolvency would be covered in Phase 1.³¹ The long-term vision contemplates a *Phase 2* expansion to tax and labor law frameworks, with a *Phase 3* potentially achieving fuller integration for regime participants.³² The key elements are as follows:

- *Phase 1 coverage:* Political feasibility dictates initial focus on areas where EU-level action is most clearly justified and least sovereignty sensitive. Phase 1 would cover (1) company formation and structure—legal personality, formation procedures, capital requirements, share structures, governance frameworks, and shareholder rights; (2) corporate operations—financing mechanisms including modern instruments, accounting and disclosure, and distributions; (3) cross-border mobility—seat transfers, mergers and divisions, and conversions between 28th regime and national forms; and (4) insolvency and restructuring—preventive procedures, reorganization, commencement standards, liquidation, ranking of claims (with exceptions noted next), avoidance actions, directors’ duties, and group insolvency.
- *Phase 1 exclusions:* Taxation and labor law would remain national in Phase 1—these are tactical concessions to political reality rather than permanent limitations. Corporate income tax, and other relevant taxes such as stamp duty, would follow national rules. Employment contracts, codetermination, collective bargaining, and termination protections would be governed by the national law of the workplace.³³ These exclusions acknowledge the deepest sovereignty sensitivities: tax requires unanimity under current treaties and touches core revenue prerogatives, and labor involves fundamental social policy disagreements and union opposition that torpedoed the *Societas Privata Europaea* (SPE) and the *Societas Unius Personae* (SUP). The implication is significant: companies in the 28th regime still face 27 tax systems and varying labor law, limiting (though not eliminating) compliance benefits. However, this incomplete scope makes political adoption feasible while addressing some of the most acute barriers—corporate law and insolvency fragmentation (see Draghi 2024; Letta 2024; Schörner 2025).

Dynamic evolution: Built-in review mechanisms every five years would enable scope expansion and technical refinement. Authority for technical updates could be delegated to the Commission, whereas substantive changes would follow normal legislative procedure.

The choice of a voluntary opt-in regime and phased implementation strategy is central to addressing these challenges. A compulsory or fully harmonized approach would likely face significant political resistance given the sensitivity of key legal areas, whereas an opt-out regime could raise concerns about unintended spillovers and legal uncertainty. By contrast, a voluntary framework allows firms and member states to adopt the regime where benefits are most immediate, fostering gradual convergence through market-led uptake. Similarly, a phased approach enables early focus on areas where harmonization yields the highest economic gains and is most feasible politically, while allowing more complex or sensitive areas—such as taxation and labor law—to be addressed once sufficient experience, institutional capacity, and consensus have been established.

³¹ Among stakeholders, there are differing views: *Business Europe* (2025) considers that the company law component should be the sole focus, whereas *Digital Europe* (2025) and *Allied for Startups* (2025) insist on the importance of including aligned insolvency procedures. In favor of a phased, modular strategy, see EESC 2025.

³² Specifically, Phase 2 would focus on specific obstacles in labor law and tax law identified in the operation of the regime (for example, taxation of stock options, contracts for managers, taxation of corporate reorganizations).

³³ The EP has stated that it is mindful of the risk that an automatically recognized company could lead to the circumvention of mandatory domestic rules that protect workers, their representatives, and trade unions. Consequently, the EP recommends that national law in the area of individual and collective labor law, including rules on employee participation in the affairs of the company, should apply and that there should be safeguards that effectively prevent the abusive use of this corporate form (see EP report, January 20, 2026, P10_TA (2026)0002).

Competitive pressure from the 28th regime could produce beneficial improvements in national regimes, but unintended consequences warrant attention. If the 28th regime has strong protections, this could drive EU member states to enhance their national laws and would result in regulatory competition—states with the most deficient regimes will need to adapt quickly if they want to avoid most of their national businesses moving to the 28th regime, because firms will tend to opt for the regime that offers lower compliance costs, clearer rules, lower legal uncertainty, and easier cross-border operations. This could generate healthy competition and regulatory convergence (see Eidenmüller 2019, who argue that developments in EU law and Brexit have entrenched diversity in restructuring practices without allowing regulatory competition to correct them). Conversely, undesirable outcomes (for example, distortive forum shopping, abuse of the corporate form) could emerge if the regime is poorly designed. Monitoring and willingness to adjust regime rules are essential.

Successful implementation can lead the way to the development of subsequent components of the regime. If the company law and insolvency components are successful, this may assist in reaching broader consensus for the development of tax and labor law rules that would provide the 28th regime with a comprehensive approach to the legal areas that affect business activity the most.

Over the longer term, the first-best steady-state outcome would be a broadly adopted, comprehensive EU-wide enterprise regime providing a single rulebook across key areas affecting firm activity, including corporate law, insolvency, and—subject to political feasibility—selected elements of taxation and labor law. Such an outcome would approximate the degree of legal and market integration observed in more unified jurisdictions, enabling firms to scale seamlessly across the EU and supporting deeper capital market integration. Achieving this steady state, however, requires overcoming several preconditions, including sustained uptake by firms, development of sufficient judicial and administrative capacity, clarity on the interaction with national legal systems, and political consensus on extending the scope of harmonization. Progression to subsequent phases would therefore depend on success in the initial stage.

8. Institutional Framework to Support Implementation

Practical implementation will likely face significant challenges, including resource limitations. These include ensuring judicial capacity to administer a new legal framework, developing adequate expertise among insolvency practitioners, and creating mechanisms for consistent interpretation across jurisdictions. There are multiple trade-offs to be achieved: the regime would need to be accessible enough to be useful while sufficiently comprehensive to be effective. In addition, implementation requires substantial resources for information technology infrastructure, judicial training, practitioner certification, and public awareness. Funding would come from the EU budget (initial implementation), registration and filing fees (ongoing operations), and appropriate cost-sharing arrangements.

The institutional design of the 28th regime would aim to ensure uniform application, rapid implementation, and low administrative cost, while leveraging existing national capacity wherever possible. Rather than creating an entirely new judicial and administrative architecture from scratch, the regime would build on national institutions, complemented by EU-level coordination and oversight (see Box 3). In principle, a centralized EU-level judicial body for 28th regime cases could offer the strongest degree of legal uniformity and interpretative consistency. However, establishing such a supranational court would face significant political, legal, and budgetary constraints and would require building new institutional capacity from scratch. In practice, adjudication is therefore more likely to rely on specialized national courts, complemented by contractual arbitration mechanisms and oversight by the European Court of Justice to ensure convergence on core principles. This approach balances the objective of legal uniformity with operational feasibility, given continued reliance on national judicial systems and procedural frameworks.

The business case depends on uptake. If substantial numbers of companies adopt the regime, reduced compliance costs and enhanced economic activity would justify the investment. However, administrative burdens on member states (designating and training courts, connecting registers, enforcing compliance); the Commission (drafting, managing, overseeing, monitoring); and businesses (learning new regime, transition costs) are real and must be mitigated through simplification, support services, and streamlined digital processes.

Box 3. Institutional Safeguards for Uniform Application

Courts: A more operationally feasible approach would be used by national courts with specialized chambers designated for 28th regime cases, with judges receiving European Union (EU) training and certification. This approach leverages existing infrastructure, enables faster implementation at lower cost, and provides judges familiar with local context for gap filling. The European Court of Justice would play an active role, ensuring uniform interpretation through preliminary reference procedures. Over time, if uniform application proves difficult, creation of specialized European Commercial Courts could be reconsidered, but the initial path should prioritize pragmatism over institutional perfection. Another important factor is the use of arbitration—the practice of start-up companies and financiers may privilege the use of arbitration to settle disputes, and this can increase the speed and quality of dispute resolution.

Insolvency practitioners: An EU-level qualification for 28th regime cases would be required, in addition to national insolvency practitioner licenses. Training programs would cover regime rules and cross-border issues, with continuing education mandatory. Passporting would enable practitioners licensed in one member state to take cases in others without separate authorization, building EU-wide expertise. Oversight by an EU body would enforce a code of conduct, professional indemnity insurance requirements, and discipline for misconduct.

Registers and information systems: A central European Business Register for 28th regime companies would maintain company details, filings, accounts, beneficial ownership, and insolvency status, integrated with Business Registers Interconnection System for automatic data sharing and one-stop public access. All processes would be *digital first* with Application Programming Interface access for third parties, real-time updates, and standardized data formats. The regime should also be based on the *once-only principle* (information should be submitted only once and be reused by various national authorities).

Regime governance: Dynamic adaptation would be enabled through built-in periodic reviews, Commission delegated acts for technical updates, and normal legislative procedures for substantive changes. An advisory body representing business, investors, labor unions, insolvency practitioners, and academics would provide recommendations without binding power. Annual reports from the Commission would publish data on uptake, costs, outcomes, and user satisfaction, identifying issues, proposing improvements, and building legitimacy through transparency.

Source: IMF staff elaboration.

9. Conclusion

The EU has built the world's largest single market, yet enterprise law remains fragmented across 27 jurisdictions. This undermines seamless cross-border operations and imposes costs particularly on start-ups and SMEs. Decades of harmonization efforts through directives have achieved partial convergence but face clear political limits, as demonstrated by the failures of SPE and SUP and the modest uptake of the SE (approximately 3,000 SEs versus over 19 million limited liability companies). Political resistance from member states protective of sovereignty, professional groups concerned about revenue impacts, and labor unions focused on worker protections have stalled comprehensive reform in areas touching tax, labor, and core insolvency issues.

The 28th regime concept, designed with start-ups and firms aiming to scale up in mind (and leveraging digital tools) but open to all, offers a pragmatic path forward: an optional EU-wide framework coexisting with national systems rather than replacing them. Established through a regulation for direct and uniform applicability, the regime would cover company formation, operation, capital structures, and insolvency—areas where fragmentation is most acute—while initially excluding tax and labor to acknowledge sovereignty sensitivities and political realities. This incomplete scope is a tactical concession, making adoption feasible while addressing critical barriers to cross-border operations. By reducing legal and financing frictions, the 28th regime would also complement broader efforts to deepen EU capital markets and advance the SIU (Brandão-Marques and others 2026).

A flexible approach can help overcome implementation challenges. The optional nature of the regime, the phased rollout, the building coalitions of willing member states, and the exclusion of most sensitive areas (tax and labor laws), initially with Phase 2 expansion commitments, allow adoption to proceed where demand exists, while limiting disruption to national systems. Investing in judicial training, information technology infrastructure, and institutional coordination would support uniform application, whereas built-in review mechanisms enable adjustment over time in response to uptake, experience, and stakeholder feedback. In this sense, the 28th regime is conceived not as a one-off reform but as an adaptive institutional framework.

The economic case, while difficult to quantify precisely given uncertainties about uptake, is substantial. Fragmentation imposes documented costs on cross-border businesses (OECD 2023; Invest Europe 2024). Research demonstrates that legal framework quality significantly affects access to finance, credit costs, and firm performance (Djankov and others 2008; La Porta, Lopez-de-Silanes, and Shleifer 2008; Armour and others 2009). A well-designed regime attracting meaningful adoption could generate significant benefits through reduced compliance costs, enhanced access to capital, facilitated scaling, and improved competitive positioning (Arnold and others 2025). Model simulations suggest that the potential economic gains from the 28th regime could raise GDP by 3.3 (4.4) percent over 10 (20) years. This corresponds to almost 15 percent of the current EU-US hourly labor-productivity gap, underscoring that even partial progress on a targeted integration reform can meaningfully narrow Europe's productivity shortfall. It could also create an incentive for individual member states to improve their own enterprise law frameworks. These potential benefits likely justify the required investment in implementation.

The 28th regime would demonstrate the EU's capacity to innovate in governance, and progress toward fulfilling the single market promise for enterprises. It respects national diversity while creating genuine EU-wide options, addresses contemporary entrepreneurial needs while remaining adaptable to future challenges, and promises tangible benefits through reduced costs, facilitated scaling, and enhanced European economic performance.

Annex 1. Divergences in Company Law (Limited Liability Companies [LLCs])

The European Union (EU) has devoted decades to the project of harmonizing company law, with a focus on public companies, but this process has stalled. The EU directives are addressed, for the most part, at public companies, not LLCs. This means that large enterprises across the EU are subject to a regime that is largely harmonized (with glaring exceptions such as corporate governance). The harmonized regime is perceived as rigid and difficult, particularly for new businesses. This explains why most new enterprises are created as LLCs, whose regime remains mostly outside the scope of the directives.

EU member states regulate LLCs in quite diverse ways. Annex Table 1.1 shows how different those legal approaches are. Some countries regulate LLCs as “small public companies” and therefore have imported many of the rigid rules that characterize European public companies (for example, Germany, Sweden). Other countries have reacted against this trend by making their LLCs much more flexible and business friendly (for example, Belgium, Estonia, The Netherlands). Finally, there is a third set of countries that have maintained somewhat rigid plans for LLCs but have created special, flexible corporate regimes adapted for start-up companies (for example, Austria, France, Poland [comprehensive regimes] and Italy and Spain [more limited modifications]). Annex Table 1.1 shows aspects that are relevant to the paper’s analysis (time to register, minimum capital, flexibility of capital structure).

Annex Table 1.1. Country Examples of Existing Company Law Elements

Country	Entity Type	Minimum Share Capital	Approximate Setup Time	Key Feature	Capital Structure Flexibility	Special Start-Up Vehicle/Regime
Austria	GmbH	€10,000 (€5,000 paid-in)	2–4 weeks	Founding privilege (Gründungsprivilegium) allows €10,000 paid-in for the first 10 years. Notarial deed required.	Low. No share classes in GmbH (Geschäftsanteile). Capital increases require notarial deed and court registration. Hybrid instruments possible contractually but not within the GmbH capital structure itself.	Yes–FlexCo (Flexible Kapitalgesellschaft/FlexKapG) was introduced on January 1, 2024. Minimum capital €10,000 (€5,000 paid-in); no notarial deed, simplified formation, and share transfers; multiple share classes; conditional capital increases and authorized capital; enterprise value shares for employee equity.
Belgium	BV/SRL	None (must be “sufficient”)	~10 days	No minimum capital since 2019 reform; founders must present a solid financial plan. Notarial deed required.	Extremely high. The 2019 reform allows broad securities, including shares, convertible bonds, warrants, subscription rights, certificates, and multiple share classes with differentiated rights.	Not a distinct vehicle, but the 2019 BV/SRL reform effectively created a start-up-friendly regime with no minimum capital, broad securities, and flexible governance.
Bulgaria	OOD	BGN 2 (~€1)	~1 week	Low corporate tax rate and minimal capital requirements; increasingly popular for e-commerce and digital businesses.	Low. Shares are equal; no share classes. Capital increases require notarial deed and court registration. Hybrid instruments uncommon.	No dedicated start-up vehicle. Some fiscal incentives under the Innovation Act but no separate corporate form.
Czech Republic	s.r.o.	CZK 1 (~€0.04)	5–15 days	2014 reform reduced minimum capital to CZK 1. Fully online registration possible.	Moderate. Diverse business-share types with varied rights are possible. Capital increases require notarial deed. Convertible instruments growing in use.	No dedicated start-up vehicle. The 2014 s.r.o. reform is itself start-up friendly; discussion of a flexible share company is ongoing.

Denmark	ApS	DKK 20,000 (~€2,700)	1-2 weeks	Capital requirement reduced in 2019. Online registration through Virk.dk; no residency requirement.	Moderate-High. Share classes permitted; differentiated voting and dividend rights common; convertible instruments and warrants well established.	No dedicated start-up vehicle. The IVS was a €1 start-up form introduced in 2014 but abolished in 2019 after creditor protection concerns.
Estonia	OÜ	€0.01	15-30 minutes	Fully digital; e-Residency allows remote management.	High. Multiple share classes permitted; voting, dividend, and liquidation rights freely configurable. Capital increases digital and low cost.	No dedicated start-up vehicle needed—the OÜ baseline is already highly start-up friendly with €0.01 capital, full digitalization, and e-Residency.
France	SARL	€1	~3 weeks	Flexible capital; single-tier or two-tier board choice.	Low. No share classes for SARL. Capital increases require an EGM and notarial filing. The SAS offers greater flexibility but is a distinct form.	The SAS functions as France's de facto start-up vehicle, with broad contractual freedom, multiple share classes, flexible capital structures, €1 minimum capital, and no notary for standard formation.
Germany	GmbH	€25,000 (€12,500 paid-in)	2-6 weeks	Requires notarized articles of association.	Low. No share classes by default; differentiation possible but cumbersome. Capital increases require notarial deed. Hybrid instruments possible contractually but outside the GmbH structure.	Partial—the UG or mini-GmbH allows formation with €1 minimum capital, but profits must be retained until the capital reaches €25,000. No multiple share classes.
Hungary	Kft.	HUF 3,000,000 (~€7,300)	2 hours-2 weeks	Electronic formation can be very fast. Lowest flat corporate tax rate in the EU. Lawyer involvement required.	Moderate. Business shares can carry differentiated rights. Capital increases require attorney involvement and court registration.	No dedicated start-up vehicle. Electronic formation and the 9 percent corporate tax rate are the main start-up incentives.
Ireland	LTD	€1 (no statutory min.)	1-5 business days	No minimum share capital; online registration; at least one EEA-resident director required or Section 137 bond.	Extremely high. Common law tradition allows broad flexibility, multiple share classes, fast capital increases, and hybrid instruments such as convertible notes, SAFEs, and warrants.	No dedicated start-up vehicle needed. The standard LTD is already highly flexible; start-up incentives operate through tax plans rather than a separate form.

(continued)

Annex Table 1.1. Country Examples of Existing Company Law Elements (continued)

Country	Entity Type	Minimum Share Capital	Approximate Setup Time	Key Feature	Capital Structure Flexibility	Special Start-Up Vehicle/Regime
Italy	S.r.l./S.r.l.s.	€1 (S.r.l.s.)/ €10,000 (S.r.l.)	3–7 days	Standard SRL requires €10,000; simplified SRLS can be established with €1. Notarial deed mandatory.	Moderate. Quota holders can receive different profits and voting rights. SRL can issue subordinated financial instruments. Capital increases require notarial deed.	Partial. Startup innovativa is a regulatory status with fee exemptions, crowdfunding benefits, and enhanced employee stock option treatment. SRLS is also used by early-stage founders.
Lithuania	UAB	€2,500 (€1 for MB)	1–3 days	Fast digital registration; strong fintech ecosystem.	Moderate. Multiple share classes permitted; capital increases manageable and partly digitized; convertible instruments allowed.	No dedicated start-up vehicle, but the MB small partnership offers €1 minimum capital and is popular for micro-start-ups.
The Netherlands	B.V.	€0.01	1–2 weeks	Popular for holding companies; flexible share classes.	Extremely high. Flex-BV introduced nonvoting shares, profit-only shares, and multiclass structures; convertible bonds, warrants, and share premium contributions are widely used.	No dedicated start-up vehicle—the Flex-BV is itself start-up friendly with €0.01 capital and broad share-class flexibility.
Poland	Sp. z o.o.	PLN 5,000 (~€1,150)	3–5 days online/~1 month notarial	Online registration through S24; notarial deed required for custom articles; no foreign ownership restrictions.	Low to moderate. Shares are traditionally equal; differentiation possible but limited. Capital increases require notarial deed.	Yes—the PSA, introduced in 2021, has PLN 1 minimum capital, online registration, flexible share classes, employee equity plans, and electronic shareholder meetings.

Portugal	Lda.	€1	1-2 weeks	Empresa na Hora allows same-day registration at government counters. €1 minimum capital since 2011.	Low. Quotas are equal; no share classes. Capital increases require notarial or lawyer-certified deed. Hybrid instruments limited.	No dedicated start-up vehicle. Start-up incentives are tax or administrative rather than corporate law based.
Spain	S.L.	€1	4-8 weeks	High notary fees; slower administrative processing.	Low. Participations are legally equal; no share classes. Capital increases require a public notarial deed and registry filing.	Partial—the Ley de Start-Ups creates a regime for certified emerging companies with reduced tax, fee relief, fast incorporation, stock option exemptions, and investor deductions.
Sweden	AB (Aktiebolag)	SEK 25,000 (~€2,200)	1-3 weeks	Minimum capital reduced in 2020. Digital registration. Strong governance and creditor protection culture.	Moderate to high. Multiple share classes are widely used. Capital increases require shareholder resolution and registration; preference shares and convertibles are common.	No dedicated start-up vehicle. The AB regime is standard; start-up incentives include R&D tax deductions and favorable employee option treatment.

Source : IMF staff elaboration.

Note: AB = limited liability company (Sweden); AG = public company (Germany, Austria); ApS = private limited company (Denmark); BV/B.V. = private limited company (The Netherlands, Belgium); BGN = Bulgarian lev; CZK = Czech koruna; DKK = Danish krone; EEA = European Economic Area; EGM = extraordinary general meeting; EIS = Employment and Investment Incentive Scheme (Ireland); EU = European Union; FlexCo/FlexKapG = Flexible Kapitalgesellschaft (Austria); GmbH = private limited company (Germany, Austria); HUF = Hungarian forint; IVS = Danish €1 entrepreneur company; Kft. = private limited company (Hungary); Lda. = private limited company (Portugal); LTD = private limited company (Ireland); MB = small partnership (Lithuania); NV = public limited company (The Netherlands, Belgium); OOD = private limited company (Bulgaria); OU = private limited company (Estonia); PLN = Polish zloty; PSA = simple joint-stock company (Poland); QES0 = Employee Stock Option Scheme (Sweden); R&D = research and development; SA = public limited company (Belgium, France, Spain); SAFE = simple agreement for future equity; SARL = private limited company (France); SAS = Société par Actions Simplifiée (simplified joint-stock company) (France); SAYE = Save As You Earn (share scheme, Ireland); SEK = Swedish krona; SIFIDE = Sistema de Incentivos Fiscais à Investição e Desenvolvimento Empresarial (R&D tax credit) (Portugal); S.L. = private limited company (Spain); SRL/S.r.l. = private limited company (Poland); SRLS/S.r.l.s. = simplified private limited company (Italy); s.r.o. = private limited company (Czech Republic); UAB = private limited company (Lithuania); UG = “mini”-limited liability company (Germany); WBSO = R&D tax credit (The Netherlands).

Annex 2. Facts on the Ground: Current Status of European Union (EU) Company and Insolvency Law

Company Law

The existing EU enterprise legal framework creates complexity for firms expanding across borders. This is because most of the EU company law instruments are directive based and seek to harmonize aspects such as company formation, capital, disclosure, mergers, and shareholder rights, while leaving other core matters that are outside company law but critically affect enterprise activities—insolvency, taxation, and labor law—to national legislation.³⁴ In addition, most of the harmonized company law rules are addressed at public companies only. Start-up companies avoid the harmonized regime because of its rigidity and prefer to incorporate under national statutes for limited liability companies (Enriques, Nigro, and Tröger 2025).

Besides EU-wide forms like the *Societas Europaea* (SE) and *Societas Cooperativa Europaea*,³⁵ the vast majority of companies in the EU are governed by national company law regimes.³⁶ These laws differ across member states in terms of specific rules on company formation, capital requirements, governance, and shareholder rights, to the extent that the company law directives do not fully harmonize the regime, and, also, member states have implemented company law directives in different ways (see Gelter 2019).³⁷ These divergences arise both because (1) directives leave room for national transposition and (2) EU company law does not cover all relevant matters. As a result, firms must navigate different national regimes when expanding across borders.

The SE statute—introduced in the early 2000s and a milestone in EU integration—allows companies to operate across the EU under a single legal identity, facilitating cross-border mergers and transfers of registered offices. However, SE adoption has been modest and concentrated in a few countries, with around 3,000 registrations (compared with approximately 24 million companies in the EU, and 19 million limited liability companies). This modest uptake does not necessarily imply that the SE failed—these 3,000 SEs include many large firms that may account for a significant share of private sector activity—but it does indicate that the form has not become a general-purpose vehicle for cross-border business. Several factors explain this limited uptake: (1) the SE was designed with large corporations in mind (for instance, Airbus and Allianz are well-known SEs), leaving small and medium enterprises ill-served because of high minimum capital requirements (€120,000), cross-border formation conditions, and restrictions on formation methods.³⁸ (2) The SE

³⁴ Some key areas of company law remain outside harmonization. The most notable example is corporate governance: the Draft Fifth Company Law Directive, which aimed to regulate board structure and codetermination in large enterprises, was never adopted because of controversy. Insolvency law has been the focus of harmonizing efforts since 2014, as discussed in this annex.

³⁵ We can also mention the European Economic Interest Grouping, which is a uniform European instrument for the cooperation between companies of various EU countries, by way of consortia Council Regulation (European Economic Community - EEC) 2137/85).

³⁶ *Societas Cooperativa Europaea*: A European cooperative society regulated by Council Regulation (EC) No 1435/2003, designed for cooperatives operating across EU borders.

³⁷ A caveat is that differences in national corporate governance rules are only one determinant of governance outcomes; firm-specific factors—such as the rules applicable in the jurisdiction where a company is listed or where an acquirer is domiciled—often matter more. Progress under the EU's savings and investments union, by promoting deeper capital market integration and more cross-border listings and mergers and acquisitions, could further reduce the practical relevance of these national divergences.

³⁸ The process to form an SE requires cross-border activity across the EU—this means that an SE can be created by way of a merger between two companies from different member states. Two companies from different member states can also create an SE as a holding company or as a joint subsidiary. A national company can only be transformed into an SE if it has had at least a subsidiary in another member state for at least two years. These conditions were designed to ensure that the SE covers a cross-border need, rather than being an alternative to national companies.

framework is only a partial corporate law instrument³⁹ and does not constitute a full regime;⁴⁰ although it sets out certain core rules, companies must still comply with national company laws in the areas not covered by the regime,⁴¹ not to mention that it is not a comprehensive enterprise regime. This dual compliance undermines simplicity and adds legal uncertainty.⁴² (3) Negotiations on employee participation were contentious, and the final compromise imposes obligations that vary across member states, reducing flexibility.⁴³ (4) Despite its EU-wide identity, the SE does not benefit from additional harmonized core areas like insolvency or taxation, leaving companies exposed to divergent national rules that are essential for the conduct of their business activities (see generally Schmidt 2010; Ghetti 2018; Keller and Rosenbohm 2020).

Beyond the SE, the EU has introduced tools for cross-border mobility, notably the *Mobility Directive* (2019/2121), which harmonizes procedures for cross-border mergers, conversions, and divisions across member states. The Directive became effective in 2020 and was fully transposed by most member states by 2023. Digitalization initiatives, such as interconnecting business registers (Business Registers Interconnection System), aim to simplify procedures. However, these measures fall short of creating a unified enterprise regime because they harmonize only discrete procedures (cross-border merger execution, information filing) but leave untouched broader legal foundations. The actual corporate mobility of European companies has decreased since 2019 (Meyer-Erdmann and Biermeyer 2024).

Passporting rights exist and apply to licensed entities in regulated sectors (notably banking, payment institutions and e-money, investment and insurance services, and fund managers), enabling them to provide cross-border services without additional authorization in each member state.^{44,45} Even with passporting, firms must comply with host-country conduct rules, which can create complexity. Although passporting applies only to regulated activities, firms offering mixed services may still need multiple authorizations. Companies operating in unregulated areas (for example, car manufacturing) do not require passporting; they can conduct business across the internal market under the EU's fundamental freedoms.

³⁹ In fact, the SE is based on two different legal instruments: the SE regulation (regulation (EC) No 2157/2001, which includes the statute of the European company), and the Directive on the involvement of employees (2001/86/EC). This is a compromise solution to avoid having a uniform regime for workers' participation in European companies.

⁴⁰ The 28th regime proposed in this paper would also not cover all enterprise law areas initially; however, its design aims to provide a more coherent and comprehensive optional framework than the SE, including through the adoption of a phased expansion approach.

⁴¹ The Regulation expressly provides that for matters not covered by the regulation, the SE is subject to the national laws of the member state where it is registered (Article 9.1 c), and this is especially relevant for the structure and management of the company. The Regulation also allows countries to adopt national rules that are diverse or more demanding than those included in the Regulation itself.

⁴² Although the SE and national regimes are technically complementary, this complementarity still results in dual compliance in practice, because companies must apply two sets of rules—with national law varying across member states—whenever the SE statute is silent, thereby reintroducing fragmentation.

⁴³ When establishing an SE, the promoters need to open negotiations with the workers to establish the mechanisms for workers' participation. If there is no agreement, the rules of the member state implementing the Directive on the involvement of employees in SEs will apply. The Directive also requires keeping workers' participation rights if the companies participating in the creation of an SE had them, unless parties agree otherwise.

⁴⁴ Two examples of passporting rights in financial services under EU law: (1) an investment firm authorized in one EU member state under Markets in Financial Instruments Directive II can "passport" its license to provide services in other member states without needing separate authorization and (2) similarly, banks under the Capital Requirements Directive or insurers under Solvency II use passporting rights.

⁴⁵ Regulated sectors are industries where activities require authorization or licensing under EU or national law because they involve systemic risk, consumer protections, or public interest. Examples include financial services (banking, insurance, investment firms); energy (electricity and gas markets); telecommunications; transport (airlines, rail operators); and pharmaceuticals and health care. Unregulated sectors are areas where businesses can operate freely under the EU's internal market rules without needing special licenses beyond normal company registration. Examples include manufacturing, retail, technology start-ups (unless they provide regulated financial or health services), and agriculture.

Annex Box 2.1. Foundations of Cross-Border Mobility in the European Union (EU)

- *Freedom of establishment (EU single market principle)*: The EU Treaty guarantees the right of companies formed in one member state to establish branches or subsidiaries in other member states. This is a fundamental principle of the single market and is complemented by the Eleventh Council Directive (89/666/EEC), which sets disclosure requirements for branches opened in another member state.
- *Directive on cross-border mergers (2005/56/EC)*: This Directive provides a framework for mergers of public limited companies across member states. In such mergers, either the original companies may be dissolved and a new company created or one of the merging companies may remain and assume all assets and liabilities of the other(s).
- *Directive relating to certain aspects of company law (codification) (Directive (EU) 2017/1132)*: This Directive is one of the cornerstones of EU company law. It consolidates and regulates key aspects of public limited companies, including capital formation, disclosure obligations, and branch registration, allowing companies registered in one EU state to operate in others. Capital formation rules are critical because, apart from setting minimum capital requirements, they establish safeguard mechanisms for creditor and shareholder protection. These provisions ensure financial stability and legal certainty when companies expand or merge across borders, reducing risks associated with undercapitalization and enhancing trust in cross-border transactions.
- *Company mobility and registered office*: The European Court of Justice has firmly established the freedom of companies to move their registered office from one member state to another, though the legal framework is still complex and mixed, sometimes leading to “forum shopping” or legal uncertainty.
- *Draft directive on the cross-border transfer of registered office*: This would have been the Fourteenth Company Law Directive but was not adopted because of political difficulties. This Directive would have created a reliable procedure to move the seat of a national company and register it in another member state.
- *Directive on cross-border operations (Directive (EU) 2019/2121)*: This Directive takes part of the content of the proposed Fourteenth Company Law Directive and establishes rules for cross-border conversions (that is, transforming a company under a member state law into a company under the law of another member state), mergers, and divisions. The regime includes safeguards for creditors, shareholders, employees, and the public interest.
- *Directive on digital tools and processes (Directive (EU) 2025/25)*: This Directive, still in implementation, enhances the use of digital tools and processes in company formation, registration, and information disclosure, particularly facilitating cross-border business activities and improving transparency, reliability, and accessibility of company information.

Source: IMF staff elaboration.

Insolvency Law

Insolvency is a critical but under-harmonized area in the EU legal landscape. It has been recognized that harmonization of insolvency laws is a particularly complex area, given the differences in approaches and legal traditions that result in strong path dependency (see Lynch Fannon 2014).⁴⁶ The European Insolvency Regulation (recast 2015) established a cross-border insolvency framework, but substantive insolvency law remained largely national. The 2019 Restructuring and Insolvency Directive established rules for preventive restructuring and some insolvency aspects but was not intended as a general harmonization directive for the enterprise insolvency regime. Notably, the directive includes more than 100 options for implementation by member states, which further contributes to fragmentation and complexity in practice (see Garrido and others 2021).

The new Insolvency Directive (Directive 2026/799) aims to harmonize certain areas, including avoidance actions, prepack sales, asset tracing, directors' duties, creditor committees, and transparency of insolvency regimes. However, it dropped critical topics like insolvency commencement standards and the ranking of claims. Many other aspects—executory contracts, sale of assets, group insolvency, numerous procedural details, and the regulation of insolvency professionals—remain unaddressed. The Directive will have to be implemented by member states by January 2029. It is widely recognized that the Directive represents only an additional step toward convergence, rather than achieving full harmonization. Recent discussions highlight that the lack of harmonized insolvency commencement standards, director duties in insolvency, and divergences in the ranking of claims are key elements that continue to fragment the European market and impede cross-border investment. The absence of a unified insolvency regime complicates restructuring, increases costs, and reduces predictability for creditors and investors. Achieving a harmonized European insolvency regime is a complex task, and the process could take decades—as the harmonization of company law has shown. An alternative regime that possesses the necessary qualities to increase the resilience of distressed businesses and efficient market exit would provide a faster solution for the urgent needs of start-up and scale-up companies. In addition, such a regime may increase regulatory competition with national regimes and accelerate reforms toward harmonization.

The 28th regime should be built over the insolvency law *acquis* and complemented with elements based on the international standard and best practices. The key elements harmonized by the 2019 Restructuring Directive and those included in the 2026 Insolvency Directive should be part of it. Of course, the 28th regime needs to include clear decisions about many of the options included in the directives, within the limits allowed by them, and fill the gaps of the insolvency regime according to best practices and the international standard (United Nations Commission on International Trade Law recommendations and World Bank Principles).

⁴⁶ "It is difficult to imagine a country or a union with many different insolvency laws harmonizing those successfully" (Kaufman 2007, p. 660). "'Harmonisation' and 'insolvency law' for many centuries have been an awkward couple" (Fletcher and Wessels 2012).

Annex 3. History of the Idea

Efforts to harmonize company law date back to the 1960s–70s. Since then, the European Union (EU) has sought to harmonize company law to facilitate business activities within the single market, targeting capital formation, disclosure, and shareholder rights through various directives (see Annex 6). The First Company Law Directive (68/151/EEC), for example, focused primarily on registration and disclosure requirements for companies, laying the foundation for transparency and legal certainty in cross-border operations. Subsequent directives addressed mergers, takeovers, and other aspects of company law. Despite the importance of the company law directives, there are significant areas, like corporate governance, that have not been touched by the harmonization efforts.

However, progress has been slow and politically fraught. Aside from the saga of the European company,⁴⁷ two main initiatives have illustrated the challenges: the *Societas Privata Europaea* (SPE) and the *Societas Unius Personae* (SUP). The SPE was conceived as a new European company type specifically tailored for small and medium enterprises (SMEs), offering an EU-wide legal form (Guidotti 2012). In contrast, the SUP was designed as a harmonized regime for single-member companies, to be implemented nationally by each member state rather than creating a supranational entity. Both initiatives ultimately failed because of political resistance, strong lobbying by national interests (for example, notaries, trade unions), concerns over worker rights, fears of regulatory arbitrage, and unresolved issues because of fragmentation in related legal areas such as labor, tax, and insolvency laws. These experiences underscore the difficulty of achieving consensus on company law harmonization and on enterprise law more generally.

The SPE, proposed in 2008 as a European private company statute, aimed to create a uniform legal form—primarily for SMEs, but available to any qualifying business—to operate across the EU without having to reincorporate in each member state. It was intended as a simpler alternative to the *Societas Europaea*, which was seen as too complex and costly for smaller firms. It promised (1) limited liability structure similar to national forms, (2) maximum flexibility for administration and governance, and (3) low capital requirements. However, the proposal was ultimately withdrawn in 2014 after years of stalled negotiations. Reported reasons for failure included (1) worker participation concerns with trade unions and the European Parliament fearing SPE could be used to circumvent national codetermination rights; (2) disagreement on seat rules with member states divided on whether companies could separate their registered office from their real seat, raising fears of regulatory arbitrage; (3) lack of a demanding minimum capital (perceived as a problem for creditor protection); (4) tax issues: unresolved tax coordination adding friction; and (5) political resistance of national governments and lobbies (notaries, registrars) fearing loss of fees and control.

The SUP, introduced in 2014 as a directive proposal for single-member private limited liability companies available across the EU, sought to simplify cross-border establishment for SMEs by allowing online registration and including harmonized rules for its operation. The choice of the directive technique for this type of EU-wide corporate form was controversial (see Malberti 2015) because it limits the potential for achieving real uniformity. Key features of the SUP included (1) minimum share capital of €1, (2) standardized articles of association, and (3) a digital registration process to reduce costs. Yet, the proposal was withdrawn in 2018 amid (1) fears that letterbox companies could enable tax avoidance and undermine national corporate governance standards; (2) risks to worker rights and verification (weakening employee rights and insufficient safeguards for identity verification during online registration); (3) doubts about its scope and subsidiarity with a debate over whether SUP should apply broadly or only to SMEs (with fears of misuse by large firms); and (4) political and legal opposition within member states that resisted harmonization, citing concerns over mobility undermining their sovereignty over labor and tax laws.

⁴⁷ See Annex 2.

In insolvency, the EU has moved from the cross-border procedural framework of the Insolvency Regulation⁴⁸ to substantive harmonization attempts with the Restructuring Directive and the proposed Insolvency Directive. Despite these efforts, fundamental differences remain, especially in central issues such as the ranking of claims and commencement standards. The concept of a “28th regime” for insolvency has emerged as an alternative to traditional harmonization. Rather than aligning or replacing diverse national laws, a 28th regime would create an optional European insolvency framework that would coexist alongside national systems. This approach could reduce market fragmentation and increase legal security and mobility within the EU, favoring both start-ups and existing enterprises.⁴⁹

Lessons from other EU frameworks offer useful insights. For example, the undertakings for collective investment in transferable securities directive has been a success story: as a harmonized regime, it enabled investment funds to operate across the EU under a single set of rules, unlocking access to a large integrated market. Its success reflects strong economic incentives for actors to tap a unified market and the absence of major social or tax sensitivities. By contrast, the pan-European personal pension product, a true 28th regime, has struggled. Despite its promise of portability and uniform rules, uptake has been minimal, largely because of unresolved differences in national taxation and resistance linked to pensions as a socially sensitive area. The ongoing review of pan-European personal pension product underscores a lesson: any initiative touching public and social aspects such as taxation, pensions, or employee participation faces heightened political and practical challenges in the EU.

The unitary patent, in particular, shows that the case for pan-EU regimes is strong. The unitary patent system, launched on June 1, 2023, has become a successful example for a regime that operates as an alternative to national regimes. The regime is extremely complex legally, as it is based on enhanced voluntary cooperation of member states and relies on international treaties. Despite the technical complexities, the system has become a game changer, offering businesses a one-stop shop to realize the full potential of the EU’s single market. With unitary patents, innovators can now obtain patent protection in 18 EU member states, representing a market of over 317 million inhabitants, and benefit from simpler procedures, a single and competitive set of renewal fees and one comprehensive register. By February 2025, the European Patent Office had registered over 48,000 unitary patents across all industrial sectors, with almost one-third of European patents being now converted into unitary patents (see EPO 2025).

⁴⁸ The Insolvency Regulation was first adopted in 2000 (Regulation (EC) No 1346/2000) and was revised in 2015 (Regulation (EU) 2015/848). The Insolvency Regulation includes a comprehensive regime of conflict of law rules and recognition of cross-border insolvency cases across the EU (except Denmark).

⁴⁹ In other areas of business law, there have also been developments of supranational nature, such as the EU trademark and the European patent with unitary effect. In contract law, the proposed Common European Sales Law represented an ambitious attempt to create an optional regime, though ultimately did not proceed to adoption.

Annex 4. Comparisons with the United States

Within the US federal system, competences are divided between the states and the federal government: each state maintains its own corporate statutes and regulates certain business matters, but critical areas like bankruptcy law are governed by federal statutes (see EPRS 2024). There is an apparent diversity of corporate laws, with 50 different statutory regimes. However, the diversity is not so substantial because 36 states have adopted the Model Business Corporation Act (US) (whose latest full version is from 2016). In addition, those states that have not adopted the Model Business Corporation Act (US) present many similarities. Once a company is incorporated in a state, it can conduct business throughout the country without the need to adopt a new legal form or comply with a fundamentally diverse set of rules in each jurisdiction. Moreover, companies can relocate to another state through straightforward procedures—reincorporation, merger, or conversion—further enhancing corporate mobility. These reflect the principle of mutual recognition of corporate charters and the absence of significant barriers to interstate commerce anchored in the US Constitution’s Commerce Clause. This stands in contrast to the European Union (EU), where cross-border expansion typically requires firms to navigate multiple corporate and insolvency regimes, raising legal uncertainty and fixed expansion costs.

The coexistence of state corporate law regimes has resulted in a dynamic regulatory competition: in some cases, that dynamic has been described as a “race to the bottom,” whereas another interpretation is that it is a “race to the top” (see Greenwood 2005). From this regulatory competition, Delaware has emerged as the most successful corporate law model in the United States and has become the preferred state of incorporation for US businesses.⁵⁰ More than two-thirds of Fortune 500 companies and over 2 million entities are registered there. Delaware’s appeal lies in its predictable legal environment, anchored by a specialized Court of Chancery that delivers swift and expert rulings on corporate disputes. Its statutes provide exceptional flexibility in structuring governance arrangements, making them attractive to both start-ups and multinational corporations. Although Delaware imposes corporate income tax only on income earned within the state (and not on income generated elsewhere), companies still pay federal corporate income tax and Delaware franchise taxes, so the jurisdictions’ appeal stems more from legal predictability than tax advantages for foreign and small companies.⁵¹

Incorporation in Delaware does not require a substantial physical presence, and compliance processes are streamlined, reducing administrative burdens. Companies may need to register as “foreign corporations” in other states for certain activities, and this process is straightforward and does not entail adopting a new legal identity. The US Constitution’s Commerce Clause further reinforces this system by prohibiting states from imposing discriminatory restrictions on out-of-state businesses, ensuring that incorporation in one state effectively opens the door to nationwide operations. Within the EU, The Netherlands offers a closer-to-home illustration of how a favorable national legal infrastructure can attract incorporations and corporate activity (see Annex Box 4.1). Although The Netherlands provides an excellent example of a business-friendly legal environment, it must be taken into account that the success in the use of Dutch companies is heavily influenced by tax planning strategies (Lejour and others 2019) and that the regime does not provide all the solutions required by start-up companies.

⁵⁰ It can be argued that the appeal and competitive pressure of Delaware also affect European countries (see Giudici and Agstner 2019).

⁵¹ For foreign and small companies, it is more expensive to operate a Delaware company because of the franchise taxes (which apply irrespective of the presence in Delaware), although there is no corporate income tax for companies without activity in the state. For larger companies, however, Delaware has a reputation as a tax haven, because there are no taxes on interest or investment income for holding companies. There is a discussion on whether there is a “Delaware premium,” that is, whether companies are more valuable because they are incorporated in Delaware—in favor of the existence of the premium, see Daines (2001) and against its existence, see Rhee (2023). Other states in the United States have replicated Delaware’s regime, so there may not be a significant advantage in the law, but Delaware benefits from established tradition and high quality of lawyers and judges.

There are substantive differences in the tax and labor regimes in the United States. Although there is a strong foundation for both tax and labor laws in the federal system, there are significant differences regarding the level of taxation (state taxes) and labor conditions as set by state law (for example, federal law sets a minimum wage, but states are able to set a higher minimum wage). These illustrations show that tax and labor differences can be successfully overcome by competitive corporate mobility (and assuming a significant common ground in basic rules) and that it is not realistic to assume full uniformity of tax and labor laws, even in the context of a federal state, because the legislators seek different objectives in pursuing specific policy agendas in tax and labor.

Annex Box 4.1. How Legal Infrastructure Attracts Incorporations: The Case of The Netherlands

Although the European Union (EU) lacks a US-style Commerce Clause and a single corporate law, The Netherlands shows how legal infrastructure—specialized courts, flexible company forms, and predictable governance—can make one jurisdiction disproportionately attractive to European and international firms.

Specialized dispute resolution capacity:

- *The Netherlands Commercial Court*: A chamber of the Amsterdam District Court and Court of Appeal that conducts proceedings in English for complex international commercial disputes, reducing translation burdens and aligning with the language of cross-border business.
- *Enterprise Chamber (Ondernemingskamer)*: A specialized court at the Amsterdam Court of Appeal with unique powers in corporate governance and shareholder disputes (for example, inquiry proceedings and interim measures), enabling swift, expert intervention when corporate conflicts arise.

Flexible, modern company law:

- *Flex-BV (private company) regime*: Since the “Flex-BV” reforms, Dutch BVs can be formed with de minimis capital (as low as €0.01), with streamlined formalities and broad freedom to tailor share classes (including nonvoting and profit-only shares) and governance arrangements to investor needs.
- *Freedom of contract with guardrails*: Dutch private law emphasizes party autonomy but tempers it with the principle of reasonableness and fairness, supporting sophisticated contractual solutions while allowing courts to police abuse in exceptional cases.

Governance, investor protection, and market alignment:

- The Dutch Corporate Governance Code, which applies to listed companies, emphasizes long-term value creation, risk management, and stakeholder accountability—features valued by institutional investors and compatible with EU-level transparency and sustainability rules.
- Minority-shareholder tools (for example, inquiry proceedings, preemptive rights subject to articles) bolster investor protection and predictability during growth, restructuring, or control changes.

Caveats and perspective:

- The Netherlands' appeal reflects more than legal factors alone (for example, logistics, language, talent, tax provisions, and tax treaty networks), as well as a favorable corporate and business-attractive tax environment.¹ And unlike Delaware in a federal market, the Dutch framework does not eliminate EU-wide fragmentation; firms must still navigate national differences elsewhere for activities outside Dutch law's reach.
- Still, the Dutch example underlines the policy lever available: legal infrastructure can tilt incorporations and transactions toward jurisdictions that offer expert adjudication, adaptable company forms, and clear investor protections—insights relevant for EU-level reforms like the proposed 28th regime.

Source: IMF staff elaboration.

¹ The tax regime is very favorable, especially for multinational groups of companies: the "participation exemption" fully exempts from income tax dividends and capital gains from qualifying subsidiaries. There is also a 9 percent corporate income tax for income derived from intellectual property.

The situation in the EU—a supranational union of sovereign states—is markedly different. Although the Treaty on the Functioning of the EU guarantees freedom of establishment, practical barriers remain pervasive.⁵² As discussed in the main text, companies formed in one member state often face complex requirements when expanding into another, whether that involves operating directly, establishing a subsidiary or a branch, or engaging in a merger, and the issues include divergent rules on governance, shareholder rights, and minimum capital. Insolvency and tax regimes remain entirely national, creating uncertainty for firms operating across borders. Labor law and employee participation rules add another layer of complexity, as some member states mandate codetermination, whereas others do not, making mobility costly and unpredictable. Although EU law recognizes companies formed in other member states, the absence of a harmonized regime means that businesses must navigate multiple compliance frameworks, undermining the promise of a truly integrated single market.

This structural gap places European firms—particularly start-ups—at a competitive disadvantage compared with their US counterparts. Incorporating in Delaware⁵³—or in any other state—provides seamless access to the entire US market, whereas incorporating in an EU member state does not confer equivalent benefits. The lack of a unified regime limits cross-border scalability, discourages investment, and constrains the EU's ability to replicate the dynamism of the US corporate environment.

In insolvency, the US Bankruptcy Code provides a full regime for individual and corporate insolvency, including both liquidation and reorganization. Chapter 11, in particular, provides a sophisticated framework for corporate reorganization,⁵⁴ with no specific definition or criteria for insolvency—debtors file for Chapter 11 and swiftly gain access to the reorganization process. This flexibility contrasts sharply with the EU, where insolvency standards, director duties, and the ranking of claims differ widely among member states. The lack of a unified regime in the EU limits cross-border scalability, discourages investment, and constrains the EU's ability to replicate the dynamism of the US corporate environment.

⁵² The interplay between freedom of establishment, freedom of movement of capital, and company law has generated tension between EU law and national company laws (see Ringe 2010).

⁵³ Until recently, Delaware concentrated 80 percent of the companies in the technology sector, and that percentage has fallen to around 70 percent after some court decisions that went against the expectations of managers of tech companies. Some companies are relocating to Texas. See <https://ramp.com/data/tech-companies-revolting-against-delaware>.

⁵⁴ Note that the process also works for individuals and for smaller firms, for which there is a special version, Subchapter V.

The US model cannot be directly transplanted to the EU because of fundamental differences. The Commerce Clause in the US Constitution prohibits states from discriminating against out-of-state businesses, ensuring free flow of commerce with constitutional force; EU treaties, while establishing freedom of establishment, have weaker enforcement mechanisms and face greater sovereignty concerns. US states accept federal supremacy in defined areas (bankruptcy, securities); EU member states resist sovereignty concessions more vigorously. The United States enjoys deeper integration, whereas the EU remains more diverse and less politically integrated.

Nevertheless, the US experience offers valuable lessons. Mutual recognition works and enables corporate mobility; specialized expertise provides certainty that general courts cannot match; regulatory competition can drive improvement rather than a race to the bottom if properly designed; unified insolvency is as crucial as corporate law flexibility; and low barriers to formation encourage entrepreneurship.

The EU can adapt these insights while avoiding Delaware's pitfalls. Critiques of Delaware's model emphasize potential management favoritism at shareholder/stakeholder expense, uniformity costs that may not suit all companies, and regulatory capture risks when government depends on corporate revenue. The 28th regime offers an opportunity to combine US flexibility with European stakeholder governance traditions, creating a regime that balances efficiency with broader social responsibilities.

Annex Table 4.1. 28th Regime Proposal Comparison to the US Framework

Element	28th Regime Phase 1 Proposal (EU)	US Framework (Delaware/Federal/Chapter 11)	Why it Matters
Seamless cross-border mobility with continuity of legal personality	Harmonized seat transfers, conversions, mergers/divisions across the EU with one rulebook for 28th regime entities	True federal market: firms can operate nationwide under one state's law; conversions/mergers; simple and uniform.	Reduces the "27: regime penalty." This is the domain where the EU lags the most, structurally relative to the United States; the 28th regime narrows that gap by offering an EU-wide mobility chassis.
Digital backbone (low-cost incorporation; central register; BRIS links; once-only principle)	48-hour online formation; single EU portal/ integrated digital register with once-only data sharing; digital filing	Not all state systems are digital, but company formation is fast and low cost; Delaware has a fully digital and highly efficient system.	Low barriers to entry strongly linked to higher firm creation and investment. The United States provides an extremely "light-touch" formation; the 28th regime matches this with digitalization and modern instruments. Digital transparency would also help explain much of the system's predictability.
Flexible financing tools (including SAFE recognition)	€1 minimum capital; multiple share classes; SAFE-type standardized instruments (optional)	No minimum capital. Wide private ordering; recognized use of SAFEs nationwide (contract based, widely adopted by investors, allows for expansion and growth).	Flexibility in capital formation and growth allows start-ups to be easily created and to obtain adequate finance to grow and develop, balancing the needs of investment with the founders' influence in the governance of the company.

(continued)

Annex Table 4.1. 28th Regime Proposal Comparison to the US Framework (continued)

Element	28th Regime Phase 1 Proposal (EU)	US Framework (Delaware/Federal/Chapter 11)	Why it Matters
Unified, rescue-oriented insolvency toolkit	Single EU rescue framework for 28th regime firms; predictable stay; DIP-style management; power to deal with contracts; streamlined liquidation regime	Chapter 11 provides the global benchmark for reorganization: strong automatic stay, DIP norm, super-priority for new money (DIP financing), ample powers to deal with contracts. Liquidation (Chapter 7) is streamlined and efficient.	Predictability of restructuring outcomes is a major driver of credit pricing, VC/Private Equity risk appetite, and scale-up survival. The 28th regime brings EU firms closest to Chapter 11-style efficiency.
Note: BRIS = Business Registers Interconnection System; DIP = debtor in possession; EU = European Union; SAFE = simple agreement for future equity; VC = venture capital. Source: IMF staff elaboration.			

Annex 5. 28th Regime European Law Framework: Blueprint for European Limited Liability Company

Corporate Law and Insolvency Law Components

PART I: CORPORATE LAW FRAMEWORK

Blueprint for European LLC—Corporate Law

Matter/Component	Characteristics and Rules
Legal form and nature	• Supranational corporate form available in all EU member states • Legal personality from registration • Limited liability for all members • Minimum one shareholder (natural or legal person) • Cross-border seat transfer permitted within the EU • Possibility to create the EU LLC ex novo or to convert an existing company into an EU LLC (with appropriate safeguards for shareholders and creditors)
Formation requirements	• Online registration possible in any member state • Standard articles of association with maximum contractual freedom • No notarial deed required (except for real estate contributions) • Formation within 24 hours if using standard templates • Registration fee capped at €99
Capital structure	• Minimum capital: €1 • Multiple share classes permitted • Digital shares enabled • Nonvoting shares allowed • Shares can be freely transferable or restricted by articles • No par value requirement
Capital contributions	• Cash contributions • In-kind contributions (simplified valuation) • Service contributions: explicitly permitted with vesting schedules (typically four years), cliff periods, acceleration clauses, and buyback provisions at fair value • Intellectual property and know-how • Future services capitalized over a defined period • No mandatory valuation under €100,000 (indicative)

(continued)

Matter/Component	Characteristics and Rules
SAFE implementation	• Express authorization for SAFE agreements • Conversion triggers defined in articles • Valuation caps and discount rates are freely negotiable • MFI clauses permitted • Automatic conversion or repayment options • Regulatory safe harbor for investor protection
Governance structure	• Single-tier or two-tier board (optional) • Minimum one director for companies under €10 million revenue • Directors can be legal persons • Virtual meetings as default • Written resolutions permitted • Flexible allocation of powers in articles
Shareholder rights	• One share = one vote (default, can be modified) • Tag-along/drag-along provisions allowed • Preemption rights (can be excluded) • Information rights scalable to shareholding • Exit rights negotiable in articles
Decision making	• Simple majority for ordinary decisions • 75% for constitutional changes (modifiable) • Unanimous consent only for fundamental rights changes • Electronic voting standard • No mandatory physical meetings
Financial reporting	• Simplified accounting for microenterprises • IFRS or local GAAP option. EU regime for start-up reporting • Digital filing only • Audit threshold (for example, €10 million revenue) • Quarterly reporting optional
Profit distribution	• Solvency test replaces balance sheet test • Directors' liability for improper distributions • Interim dividends permitted • Preferential dividends allowed • Profit participation rights flexible
Employee participation	• <i>Employee participation and codetermination governed by law of the member state where the company has its registered seat</i> • Stock option pools simplified • Phantom shares permitted • Service-based vesting standard
Restructuring	• Simplified merger procedures within entities • Cross-border mergers streamlined • Division and spin-off procedures • Conversion to/from national forms (including safeguards for creditors and shareholders)

Matter/Component	Characteristics and Rules
Creditor protection	• Directors' liability for wrongful trading • Related party transaction disclosure • Solvency certificate for distributions • Subordination agreements enforceable
Dispute resolution	• Choice of arbitration permitted, including arbitration in English • Online dispute resolution for shareholder conflicts • Mediation encouraged before litigation
Note: EU = European Union; GAAP = generally accepted accounting principles; IFRS = International Financial Reporting Standards; LLC = limited liability company; MFI = most favored investor; SAFE = simple agreement for future equity. Source: IMF staff elaboration.	

Key Innovation Features

Modern Finance Tools	Implementation Framework
SAFE contracts	• Statutory recognition as quasi-equity • Standard conversion mechanics • Investor disclosure requirements calibrated to sophistication
Tokens/digital shares	• Blockchain recording permitted • Smart contract governance options • Digital share certificates • API-based registries
Service contributions–stock options	• Vesting schedules (typically four years) • Cliff periods permitted • Acceleration clauses • Buyback provisions at fair value
Convertible instruments	• Notes, SAFEs, and warrants • Revenue-based financing compatible • Profit participation rights • Possibility of virtual equity plans
Note: API = Application Programming Interface; SAFEs = simple agreements for future equity. Source: IMF staff elaboration.	

PART II: INSOLVENCY LAW FRAMEWORK

Annex Box 5.1. Operational Features of the Proposed 28th Regime Insolvency Framework

Preventive restructuring: This is an early intervention (before formal insolvency) to preserve value. Key features include optional monitoring tools and director duties to consider restructuring when distress is likely (early warning); debtor in possession (DIP) as default with management retaining control unless abuse occurs or creditors request replacement; automatic stay upon filing with reasonable duration and extensions, applicable to all creditors including secured creditors, with essential contracts continuing (ipso facto clauses void); restructuring plans proposed by the debtor during an exclusivity period, with creditors and shareholders voting by class; cross-class cramdown enabling courts to impose plans on dissenting classes if at least one impaired class approves, subject to best-interest test (no creditor worse off than under liquidation) and absolute priority rule (with appropriate exceptions); and super-priority for new financing with priming liens permitted where existing secured creditors receive adequate protection, encouraging DIP⁵⁵ financing markets. For micro and small enterprises, simplified procedures would target faster completion with reduced costs, template plans available, and streamlined documentation requirements. The same principles for preventive restructuring should apply to corporate reorganization, although reorganization warrants more intensive supervision by the court.

Clear entry tests and simple commencement: A unified insolvency test would apply across all member states: a cash-flow test (inability to pay debts as due) as primary criterion, balance sheet (liabilities exceed assets) as secondary test, and likelihood based for preventive procedures. Debtors could file voluntarily, creditors involuntarily with appropriate thresholds, and directors would have a duty to file within a reasonable period of insolvency. Commencement would trigger automatic stay, estate creation, and the insolvency representative appointment, if not DIP.

Predictable treatment of claims and transactions: The insolvency estate would comprise all debtor assets at commencement plus after-acquired assets, excluding properly traced third-party property and trust assets. Avoidance actions would permit tackling preferences, undervalue transactions, and fraudulent transfers, with appropriate lookback periods and defenses for ordinary-course transactions and good faith dealings. Executory contracts could be continued, rejected, or assigned subject to curing defaults. Set-off rights would be preserved for pre-commencement mutual debts but restricted after commencement, except for financial contracts where close-out netting would be honored to preserve systemic stability.

Ranking of claims: This is the most contentious design element. Different member states have fundamentally different priorities for tax and social security claims relative to other creditors, making full harmonization politically infeasible in the first phase of the 28th regime. The proposed solution is a hybrid approach:

- European Union (EU) harmonized priorities would govern (1) secured claims to extent of collateral value, (2) administrative expenses and super-priority DIP financing, (3) employee wage claims (with appropriate cap), (4) gap for national law on public claims (see later), (5) unsecured creditors' pro rata, (6) subordinated claims (shareholder loans), and (7) equity interests.

⁵⁵ DIP financing refers to the financing mechanisms in enterprise reorganization. A company in reorganization (which often continues to be run by the debtor's management - DIP) needs to have access to financing in order to restructure its finances and operations. This financing requires special protection because of its high risk, and it is essential for the success of reorganization of distressed enterprises.

- National law of the center of main interests would determine the ranking of tax claims, social security contributions, and any other public claims.

This compromise maintains member state control over politically sensitive priorities while harmonizing other claims. The discussions on tax priorities (and other public claims) have proven intractable because of opposing approaches (some EU countries have abolished priorities entirely, whereas others allow extensive priorities in favor of public claims). It would be better to leave this issue aside to allow the rest of the regime to be adopted and adopt transparency measures. Each member state would publish clear ranking rules in an accessible EU database, enabling creditors to assess risk ex ante. The collection of empirical data on the effects of tax and other public claims would be useful to assess their real impact (see Aw, Crowley, and Garrido 2025). Phase 2 would pursue full harmonization if a political consensus emerges.

Efficient liquidation when rescue is not viable: When reorganization is not viable, orderly liquidation would proceed with going-concern sales preferred over piecemeal asset disposal. Modern features would include prepack sales (negotiated prefiling with post-filing court approval), stalking horse bids, digital auction platforms, and credit bidding by secured creditors.

Group insolvency coordination: For enterprise groups, procedural coordination mechanisms would include appointment of group coordinators, information sharing among representatives, joint hearings, and integrated restructuring plans. Substantive consolidation—treating the group as a single entity, eliminating intercompany claims, pooling assets—would be exceptional, permitted only where substantial asset commingling, fraud, or creditor prejudice justify it.

Directors' duties in the period approaching insolvency: Near insolvency, directors' duties would shift from maximizing shareholder value to preserving the estate and considering creditor interests (UNCITRAL 2013). Wrongful trading—continuing operations when insolvency is known or should be known, thereby worsening the position—would trigger personal liability, with defenses for reasonable steps to minimize loss, good faith reliance on professional advice, and genuine restructuring attempts (safe harbor). The business judgment rule would protect directors acting in good faith and on informed bases, encouraging risk taking for rescue while imposing accountability for recklessness.

Cross-border application: Since the 28th regime is a unified insolvency regime that applies across the EU, the mechanisms for cross-border application would need to reflect that reality. There should not be a possibility to open secondary proceedings for companies subject to the 28th regime. The competent court would be the court where the company's center of main interests is, and the insolvency proceedings should be automatically recognized across the EU, with proper coordination mechanisms across courts. This would ensure that the best available outcomes are achievable.

Source: IMF staff elaboration.

Blueprint for European LLC–Insolvency Law

Aligned with EU Restructuring Directive 2019/1023, Insolvency Directive 2026/799, and UNCITRAL Legislative Guide on Insolvency Law and World Bank Principles.

Matter/ Component	Characteristics and Rules	Source/Basis
Scope and application	• Applies to all EU LLC entities (choice of company form implies submission to insolvency regime) • Covers pre-insolvency and insolvency • Group insolvencies included	UNCITRAL LG, Ch. I
Preventive restructuring	• Early warning tools mandatory • DIP as default • Stay of enforcement actions (4 months + extensions up to 12) • Cross-class cramdown with APR (absolute priority rule) protection • New financing super-priority • MSE simplified procedures	Directive 2019/1023 Arts. 3-19
Insolvency test	• Cash-flow insolvency (inability to pay debts as due) • Balance sheet insolvency (liabilities exceed assets) as subsidiary test • Likelihood of insolvency (for preventive procedures)	Directive 2019/1023, Art.1; UNCITRAL LG, Rec. 15-17; WB C4
Commencement	• Debtor application (voluntary) • Creditor application (involuntary) with €10,000 threshold • Duty to file within 3 months of insolvency • Electronic filing standard	UNCITRAL LG, Rec. 14-29/ Insolvency Dir. 2026/799, Arts. 40-42. WB B2, C4
Institutional framework	• Specialized courts • Prepack administrators authorized • Digital case management system • Insolvency practitioner specially qualified for the regime	Directive 2019/1023, Arts. 25-28; Insolvency Dir. 2026/799 Art. 23. WB D1-8
Moratorium/stay	• Automatic stay on filing • Covers all enforcement including secured creditors • Essential contracts protected • Ipso facto clauses unenforceable • Regulatory proceedings exempted • Maximum 12 months with judicial review	Directive 2019/1023 Arts. 6-7/UNCITRAL LG Rec. 46-51/WB C5, C10
Insolvency estate	• All debtor property at commencement • After-acquired property included • Access to tracing mechanisms	UNCITRAL LG Rec. 35-45, 69-77; Insolvency Directive 2026/799, Arts. 14-20/WB C8
Claims and priorities	EU harmonized priorities: 1. Secured claims (to collateral value) 2. Administrative/rescue financing expenses 3. Employee claims (capped at €25,000)	UNCITRAL LG Rec. 178-189/ WB C12

Matter/ Component	Characteristics and Rules	Source/Basis
	<i>Law of the COMI (Center of Main Interests) of the company determines the following:</i> • Tax claim priority and ranking • Social security contribution priority • Other public claim priorities • Remaining unsecured creditors • Equity interests (outside ranking)	
Avoidance actions	• Preferential transfers (6-month/2-year insiders) • Undervalue transactions • Fraudulent transfers • Defenses for ordinary-course transactions • Safe harbors for restructuring actions	UNCITRAL LG Rec. 87-99/ Insolvency Directive 2026/799, Arts. 6-13/WB C11
Restructuring/ reorganization plans	• Classes by economic interest • Majority in number + two-thirds value per class • Best interest of creditors test • Absolute priority rule with exceptions for new money • Cross-class cramdown (at least one impaired class approves) • MSE: no classes required under €1 million debt • Confirmation within 6 months • Possibility of prepackaged or prearranged plans	Directive 2019/1023 Arts. 8-16; UNCITRAL LG Recs. 139-159; 160-168; WB B.4.2, C14
DIP finance	• Super-priority for new money • Priming liens permitted with adequate protection • Roll-ups allowed with scrutiny • Interim financing approved in 48 hours • Cross-border facilities recognized	Directive 2019/1023 Art. 17/ UNCITRAL LG Rec. 94-99
Liquidation procedure	• Asset realization within a target of 12 months • Going-concern sales preferred • Prepack sales • Stalking horse bids permitted • Credit bidding allowed • Digital auction platforms • Distribution per priority ranking	UNCITRAL Rec. 135-151; Insolvency Directive 2026/799, Arts. 21-39
Directors' duties	• Duty to consider creditor interests near insolvency • Wrongful trading liability • Duty to file timely (3 months) • Business judgment rule protection • Safe harbor for restructuring attempts • Shadow directors' liability	Directive 2019/1023 Art.19; Insolvency Directive 2026/799 Arts. 40-42; UNCITRAL LG Part IV

(continued)

Matter/ Component	Characteristics and Rules	Source/Basis
Group insolvencies	• Group coordination proceedings • Synthetic consolidation available • Group coordinator appointment • Integrated restructuring plans • Cost-sharing protocols • Subordination of intercompany claims	EIR Recast/UNCITRAL LG Part III; and Model Law on enterprise group insolvency
Cross-border issues	• COMI at registered office (presumption) • Secondary proceedings limited • Synthetic secondary proceedings • Cooperation protocols mandatory	EIR Recast/UNCITRAL Model Law on Cross-Border Insolvency
Note: COMI = center of main interests; DIP = debtor in possession; EIR = European Insolvency Regulation; EU = European Union; LLC = limited liability company; MSE = micro and small enterprise; UNCITRAL = United Nations Commission on International Trade Law. Source: IMF staff elaboration.		

Special Procedures and Modern Features

Procedure Type	Key Features	Requirements
Prepack sales	• Negotiated before formal filing • Court approval within 30 days • Marketing test or valuation required • Connected party scrutiny • Job preservation incentives	Insolvency Directive 2026/799 Arts. 21-39
MSE fast track	• Proceedings under 90 days • Reduced documentation • Fixed cost cap (€5,000) • Template plans available • Mediation integrated • Digital-only process	UNCITRAL LG Part V. WB Principles C18-C20
AI early warning	• Algorithmic distress detection • Automated filing reminders • Cash-flow prediction tools • Benchmarking against sector • Anonymous consultation system	Directive 2019/1023 Art. 3
Note: AI = artificial intelligence; MSE = micro and small enterprise; UNCITRAL = United Nations Commission on International Trade Law; WB = World Bank. Source: IMF staff elaboration.		

Annex 6. List of European Union (EU) Company Law Directives

Directive (EU) 2017/1132–Codification Directive

- Consolidated and replaced multiple earlier directives
- Covers disclosure requirements, validity of obligations, nullity of companies, branches, mergers, and divisions
- This codified: First (68/151/EEC), Second (77/91/EEC), Third (78/855/EEC), Sixth (82/891/EEC), Eleventh (89/666/EEC) Directives, and parts of 2012/30/EU Directives

Directive (EU) 2019/1151–Digital Tools and Processes

- Amends Directive 2017/1132
- Online formation of companies
- Online registration of branches
- Online submission of company documents

Directive (EU) 2019/2121–Cross-Border Operations

- Amends Directive 2017/1132
- Cross-border conversions
- Cross-border mergers (updating previous rules)
- Cross-border divisions

Accounting and Transparency Directives

Directive 2013/34/EU–Accounting Directive

- Annual financial statements
- Consolidated financial statements
- Replaced Fourth (78/660/EEC) and Seventh (83/349/EEC) Directives

Directive 2004/109/EC–Transparency Directive

- Harmonization of transparency requirements for listed companies
- As amended by Directive 2013/50/EU

Directive 2006/43/EC–Statutory Audit Directive

- Statutory audits of annual and consolidated accounts
- As amended by Directive 2014/56/EU

Regulation (EU) No 537/2014

- Specific requirements for statutory audits of public-interest entities

Listed Companies–Capital Markets

Directive 2004/25/EC–Takeover Bids Directive

- Rules on takeover bids for listed companies

Directive 2007/36/EC–Shareholder Rights Directive I

- Exercise of shareholder rights in listed companies

Directive (EU) 2017/828–Shareholder Rights Directive II

- Amends Directive 2007/36/EC
- Shareholder engagement, executive remuneration, related party transactions

Directive 2001/34/EC–Listing Directive

- Admission of securities to official stock exchange listing
- Consolidates earlier directives

Directive (EU) 2024/2810–Multiple-Vote Share Structures

- Enables the use of multiple voting shares in companies admitted to trading

Directive (EU) 2025/25–Digital Tools and Processes in Company Law

- Amends Directives 2009/102/EC and (EU) 2017/1132
- Interconnected registers, use of digital processes

Special Company Forms

Council Regulation (EC) No 2157/2001

- Statute for a European company (Societas Europaea)–Note: This is a regulation, not a directive.

Council Directive 2001/86/EC

- Employee involvement in the European company (Societas Europaea)

Council Regulation (EC) No 1435/2003

- Statute for a European Cooperative Society (Societas Cooperativa Europaea)

Council Directive 2003/72/EC

- Employee involvement in the European Cooperative Society

Specific Sectoral Directives

Directive 2009/102/EC

- Single-member private limited liability companies (Twelfth Directive)
- Now incorporated into Directive 2017/1132

Corporate Governance and Disclosure

Directive 2014/95/EU–Non-Financial Reporting Directive

- Disclosure of nonfinancial and diversity information
- Amends Directive 2013/34/EU

Directive (EU) 2022/2464–Corporate Sustainability Reporting Directive

- Replaces and expands Non-Financial Reporting Directive
- Sustainability reporting requirements

Directive (EU) 2024/1760–Corporate Sustainability Due Diligence Directive

- Recently adopted (2024)

Due diligence obligations for large companies

Annex 7. Main Assumptions for Model Simulations

Annex Table 7.1. Assumptions for the 28th Regime Model Simulations

Assumption/Channel	Calibration	Model Mapping/Rationale
Digital backbone/entry costs	All newly created firms adopt the 28th regime; entry costs converge to the lowest observed EU level.	Lower fixed entry costs raise firm dynamism and competition, implemented in GIMF as a gradual increase in TFP.
	Benchmark informed by entry cost and business registration reform evidence.	The channel captures the productivity gains from easier firm creation and more efficient reallocation toward dynamic entrants.
Flexible capital structures/venture financing	EU pension funds' VC allocation rises from about 0.02 percent of AUM to about 0.5 percent, holding AUM constant.	Higher VC financing is mapped into higher TFP through increased start-up entry and scaling.
	The 28th regime closes 50 percent of the gap with US pension and insurance funds' VC investments.	The implied TFP gain is implemented as a productivity shock in GIMF.
	Financing cost differentials relative to the lowest-cost EU country are halved, equivalent to about 30 basis points on average.	Lower due diligence and contracting costs are implemented as a reduction in financing wedges.
Insolvency predictability/recovery rates	EU gross recovery rates converge toward the highest observed European level, with the EU average at about 40 percent and the highest level at about 90 percent.	Higher recovery rates reduce expected losses and lower the corporate risk premium.
	Corporate risk premiums fall by about 130 basis points on impact and stabilize at about 50 basis points after 10 years.	Lower financing costs support investment, capital deepening, and output gains over time.
Overall reform impact	Combined effect of the three pillars.	The simulation raises GDP by about 3.3 percent after 10 years and 4.4 percent after 20 years, reflecting interactions across entry, financing, and insolvency channels.
Note: AUM = assets under management; EU = European Union; GIMF = Global Integrated Monetary and Fiscal Model; TFP = total factor productivity; VC = venture capital. Source: IMF staff elaboration.		

Annex 8. European Commission (EC) EU Inc. Proposal

The European Commission (EC)'s proposal establishes a new optional European Union (EU)-wide limited liability company form (EU Inc.), to be governed by a harmonized set of corporate rules laid down in a directly applicable Regulation.⁵⁶ Its core elements include (1) an optional EU-wide company form, (2) digital-by-default formation and operations, (3) harmonized core corporate law rules, (4) a highly flexible capital and financing framework, (5) employee stock ownership plans, and (6) digital liquidation and simplified insolvency for specific firms.⁵⁷ Corporate taxation and labor law remain governed by national law, with safeguards to protect existing employee participation rights.

Although the European Commission's "EU Inc." proposal shares several objectives with the framework developed in this paper, important differences in design reflect distinct priorities and constraints. In particular, the proposal of this paper places greater emphasis on a comprehensive and predictable insolvency framework and adopts a more cautious approach to areas such as employee stock ownership, where national tax and labor considerations remain key. These differences reflect a focus on addressing the most binding cross-border frictions to firm scaling and capital allocation, while acknowledging the political and institutional constraints surrounding deeper harmonization.

The EU Inc. framework is designed to respond to the needs of start-up and scale-up companies while remaining legally open to all founders and companies. Limited liability companies formed and operating in compliance with the proposed Regulation should be recognized in all member states, and to this end, these companies' names should include the clear denomination "EU Inc." for transparency and trust reasons. Companies could be created from scratch or converted from existing national forms. Incorporation would be fully online through an EU-level central interface linked to national business registers, with a fast-track procedure (48 hours, capped cost at €100) using standardized EU templates. The "once-only" principle would apply across company's life cycle interactions with public authorities. EU Inc. companies could operate with zero minimum capital, non-par value shares (that is, shares without a nominal value), multiple share classes, and modern financing instruments (including simple agreements for future equity, convertibles, warrants). Balance sheet and solvency tests replace traditional capital maintenance rules. A harmonized EU-level employee stock ownership plan framework is introduced, including coordinated tax timing (taxation at disposal only), aimed at improving talent attraction and retention for start-ups and scale-ups.

The governance framework is deliberately lean. EU Inc. companies are managed by a board of directors (or, potentially by a single individual) with no mandatory supervisory board. Directors are subject to a codified duty of loyalty and duty of care, protected by a statutory business judgment rule where they act in good faith and with reasonable diligence. General meetings and board meetings may be conducted fully online. The articles of association, which constitute the primary constitutional document, must be machine readable and available both in the national language of the member state of registration and in a language customary in international business, effectively English. This bilingual requirement is a notable structural choice aimed at reducing due diligence costs for cross-border and third-country investors.

⁵⁶ COM (2026) 321 final (Brussels, 18.3.2026).

⁵⁷ The insolvency rules for start-ups and innovative companies are largely modeled on the rules for the liquidation of micro and small enterprises included in the Insolvency Directive proposal of 2022, which were rejected by the EP and the Council.

On capital and financial structure, the proposal departs significantly from the EU's traditional capital maintenance tradition. There are no minimum capital and legal reserve requirements, in contrast with the harmonized rules for public limited companies. The EU Inc. may be incorporated with zero paid-in capital; the only creditor protection mechanism is the dual distribution test, requiring both a balance sheet assessment and a forward-looking solvency certification by directors prior to any distribution. This model follows modern practice in leading start-up jurisdictions and shifts risk-assessment responsibility to directors.

A key distinction between the EC proposal and the framework developed in this paper lies in the scope and depth of the insolvency regime. The insolvency provisions are limited in scope and content. For EU Inc. companies qualifying as "innovative start-ups," the Regulation introduces a simplified winding-up procedure modeled on elements of the 2022 Insolvency Directive proposal. The procedure is debtor in possession, initiated by either debtor or creditor, and features a stay of individual enforcement, a streamlined claims admission process (claims listed in a debtor statement are deemed admitted unless contested), and asset realization through national electronic auction platforms to be interconnected through the European e-Justice Portal.

The proposal's overall ambition is to make the EU a more competitive destination for company formation and investment. Whether EU Inc. achieves meaningful uptake will depend not only on the quality of its legal design but also on the speed and uniformity of implementation across 27 national business registry systems, the usability of the EU central interface, and the clarity of the rules yet to be specified by implementing act. The Commission's own impact assessment projects approximately 308,000 EU Inc. companies over a 10-year horizon, with administrative burden savings estimated at between €328 million and €440 million.

Annex Table 8.1. 28th Regime IMF Proposal and EU Inc. EC Proposal Comparison

Dimension	IMF Proposal	EC Proposal	Assessment
Legal form and instrument	Optional EU-wide company regime, established by Regulation	Harmonized corporate form, EU-wide (EU Inc.) through Regulation (under Article 114)	Broadly aligned
Target firms	Open to all firms	Open to all firms	Aligned
Digital formation	Fully digital, fast, low-cost EU-level process, central interface (BRIS)	Fully digital EU central interface (BRIS), 48 hours/€100 fast track	Aligned
Cross-border recognition	Automatic EU-wide recognition and mobility	Automatic EU-wide recognition and mobility	Aligned
Capital regime	No/low minimum capital; flexible capital maintenance, non-par value shares	No/low minimum capital; flexible capital maintenance, non-par value shares	Aligned
Financing instruments	Explicit recognition of SAFEs, convertibles, warrants	Explicit recognition of SAFEs, convertibles, warrants	Aligned
Governance	Flexible, proportionate governance	Flexible governance, digital meetings, minority safeguards	Aligned
Employee stock ownership	Identified as key friction; reform encouraged	Dedicated EU-level ESOP with harmonized tax timing	EC goes further
Insolvency	Unified, rescue-oriented insolvency framework	Limited scope: simplified liquidation/winding-up, mainly for start-ups	EC more limited

Note: BRIS = Business Registers Interconnection System; ESOP = employee stock ownership plan; EU = European Union; IMF = International Monetary Fund; SAFEs = simple agreements for future equity.

Source: IMF staff elaboration.

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PUBLICATIONS

Toward a 28th European Enterprise Regime: A Single
Rulebook to Enable Cross-Border Scale-Up in Europe

ISBN 9798229050715



9 798229 050715