Corporate Restructuring in Malaysia

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Outline

- Background to corporate distress
- Corporate restructuring: key institutions
- Recent developments
Principal reasons behind corporate distress

- Decline in Stock prices
- Currency Depreciation
- Funding Mismatches
- Depressed Demand for Goods & Services
Indicators of corporate distress

Registry of Companies reported

- 4,776 out of 474,659 companies in existence in 1998 were dissolved
- 152% increase in dissolutions in 1998 compared to 1997, while dissolutions in 1997 were 179% higher than in 1996.

Corporate Debt Restructuring Committee (CDRC)

- As at June 1999, CDRC received 60 applications involving corporate debts amounting to RM32.5 billion.
Immediate measures

- Against the backdrop of the crisis and subsequent economic recovery, the Government recognized:
  - Corporate restructuring and corporate recovery necessary
  - Appropriate efforts had to be directed towards restructuring distressed companies

- Immediate measures introduced included:
  - Lowering statutory reserve ratio to reduce cost of funds and ease lending rates;
  - Pegging of ringgit at USD3.80
  - Exit levy on repatriation of capital and profits
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Key institutions behind corporate restructuring

- Government of Malaysia
- National Economic Action Council
- Bank Negara Malaysia
- Securities Commission
- Pengurusan Danaharta Nasional
- Danamodal Nasional
- Corporate Debt Recovery Committee
National Economic Action Council

• The NEAC was established on 7 January 1998 as consultative body to the government to deal with the economic crisis that had arisen

• Objective:
  ➢ To prevent economy from going into recession
  ➢ To reduce effect of declining ringgit and share prices on the real economy
  ➢ National Economic Recovery Plan
Bank Negara Malaysia

- Central bank responsible for, among others:
  - Monetary policy
  - Exchange rate policy
- Facilitated the process of bank restructuring
- Led the establishment of restructuring agencies: Danaharta & Danamodal
3 new key institutions were established to spearhead efforts in corporate restructuring.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Function</th>
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<tbody>
<tr>
<td>Danaharta</td>
<td>• To remove non-performing loans (NPLs) from the banking system;</td>
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<td></td>
<td>• To maximise the recovery value of the acquired assets</td>
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<tr>
<td>Danamodal</td>
<td>• To recapitalise banking institutions and serve as a catalyst to consolidate and rationalise the banking sector</td>
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<tr>
<td>Corporate Debt Restructuring Committee (CDRC)</td>
<td>• To provide the forum for debtors and creditors to work out their debt problems without having to resort to the legal process</td>
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Danaharta

- Government announced intention to set up Danaharta in May 1998

- Commitment of government reflected in speed Danaharta was established:
  - Incorporation of Danaharta in June 1998
  - Danaharta Bill passed by Parliament by August 1998
  - Danaharta Act received Royal Assent on August 29 1998
**Danaharta**

- Statutory power (Danaharta Act 1998) to acquire NPLs from financial institutions
- Rehabilitation and value maximization of loan assets acquired
- Commenced primary carve-out of NPLs in September 1998
- Danaharta acquired 40% of banking system’s total NPLs of end November 2001

- As at 31 December 2001:
  - Danaharta’s portfolio of NPLs totaled RM47.72 billion
  - RM47.69 billion of NPLs restructured or approved for restructuring
  - Recovered RM15.17 billion
  - Completed first securitisation exercise of its performing loans in 1st Q 2002
  - Will now focus on implementing approved recovery strategies until its targeted closure date of 2005
Danamodal

- Recapitalize financial institutions
- Complementary role to Danaharta
Danamodal

Core processes

- Injected RM7.59 billion into banking system
- Banks repaid RM5.45 billion (7 out of 10 banks)
- 2 became anchor banks
CDRC

Broad objectives:

- To minimise losses to creditors, shareholders and other stakeholders through voluntary coordinated workouts;
- Preserve viable businesses suffering during the adverse economic conditions and, hence, jobs; and
- To implement a comprehensive and best practice framework for debt restructuring
CDRC’s approach

• Eligibility for CDRC assistance:
  – Total aggregate debt of approximately RM100 million or more from at least 5 creditor banks
  – Company not in any insolvency administration

• 5 stage work-out process
CDRC’s achievement to date

- Significant progress in 4th Q 2001; new initiatives announced
- **Resolved 37 cases** with debts amounting to **RM34.5 billion** since its inception in 1998 to December 2001, out of 63 cases with debts of RM RM56.7 billion
- As at 31 December 2001, 12 cases with debts amounting to **RM18.0 billion** remain **outstanding**
  - Going forward, CDRC targets to resolve the remaining cases by 31 July 2002
SC’s role

• **Facilitate** restructuring proposals from listed companies
• **Drive** restructuring of market intermediaries (stockbroking companies)
SC’s regulatory purview

- Restructuring activities under the regulatory purview of SC
  - Securities Commission Act 1993
- Forms of restructuring requiring SC approval include:
  - Capital raising
  - Schemes of compromise, arrangement, amalgamation or reconstruction
  - Takeovers and mergers
  - Acquisition and disposal of assets
Facilitative measures introduced

- Less stringent profit requirement for assets to be injected extended to **all distressed listed companies**, instead of only to rescue cases
- Requirement for post-restructuring NTA position for distressed company reduced from at least 50% of par value of shares to 33%
- Extend exercise period of warrants
- All distressed listed companies allowed to issue convertible securities with nominal values below RM1.00
- Fund raising in form of rights issues allowed to be undertaken on minimum subscription basis
- Companies can choose not to submit profit forecast duly reviewed by external auditors, but only endorsed by directors (except for IPOs/reverse takeovers)
SC’s approval philosophy

- Proposal comprehensive
- Assets that are to be injected are to be of a reasonable quality
- Promoters of proposal to have proven track record of good corporate governance
- Proposal fair to all parties concerned
- Proposal does not have adverse impact on capital market in general
Broker scheme

- SC embarked on comprehensive scheme in August 1998 involving Danaharta
  - To ensure recapitalisation and regularisation of the financial position of distressed brokers
  - Overall strengthening of the industry
  - Help banking sector overcome loan exposure
- SC set up special task force, included representatives from Danaharta and KLSE
- Process:
  - 1st phase: Danaharta acquire NPLs from industry
  - 2nd phase: Danaharta proceeds with recovery procedures, including appointment of Special Administrators in consultation with SC
- A reimbursement scheme for affected clients was introduced
Broker scheme results

- Progress encouraging
- Of the 11 SBCs brought into Scheme:
  - ✓ 5 SBCs were acquired, converted into branch offices
  - ✓ 5 SBCs improved their financial positions through workout proposals
  - ✓ To date, only 1 SBC remains under Special Administrators
Consolidating stockbroking industry

- As follow-up to earlier initiatives to encourage mergers among SBCs and to strengthen industry as a whole to:
  - Develop more robust SBCs
  - Form core group of well-capitalised SBCs known as Universal Brokers
  - Enhance risk management capabilities, widen range of services
- Total number of SBCs 47
- Universal Broker status granted to 5 SBCs
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UEM-Renong

- Government made offer to take over company in July 2001
- Debts of company estimated at RM30 billion
- Favourable market response
  - KLSE among best performers in Asia in 3rd Q 2001 before 11 September
• Government pushing ahead with restructuring national carrier – Malaysia Airlines
KLSE actions

- Practice Note 4/2001 Criteria & Obligations pursuant to para. 8.14 of Listing Requirements:
  - Took effect Feb 2001
  - Minimum standard of financial condition for listed issuers
  - Compels affected issuers to regularize financial condition
  - Monthly reporting of financial health
  - Hasten pace of restructuring
  - Risk of delisting

- New measures in March 2002:
  - Affected issuers placed under new sector called “PN4 Condition”
  - Trading restrictions imposed on 43 PN4 companies
Thank You

Securities Commission