



10 April 2002

Corporate Restructuring in Malaysia

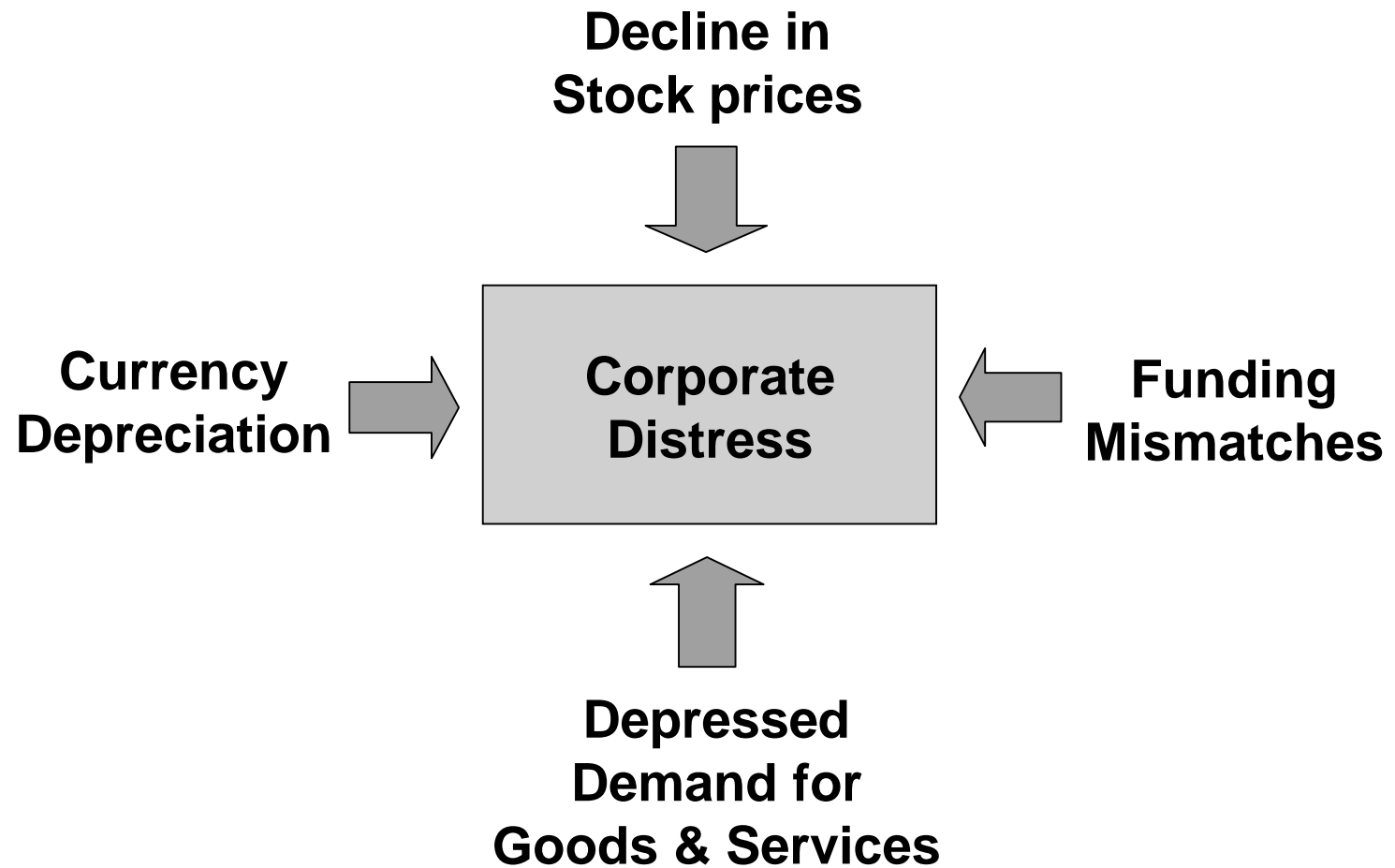
**Zarinah Anwar
Deputy Chief Executive
Securities Commission**

Outline

- Background to corporate distress**
- Corporate restructuring: key institutions**
- Recent developments**

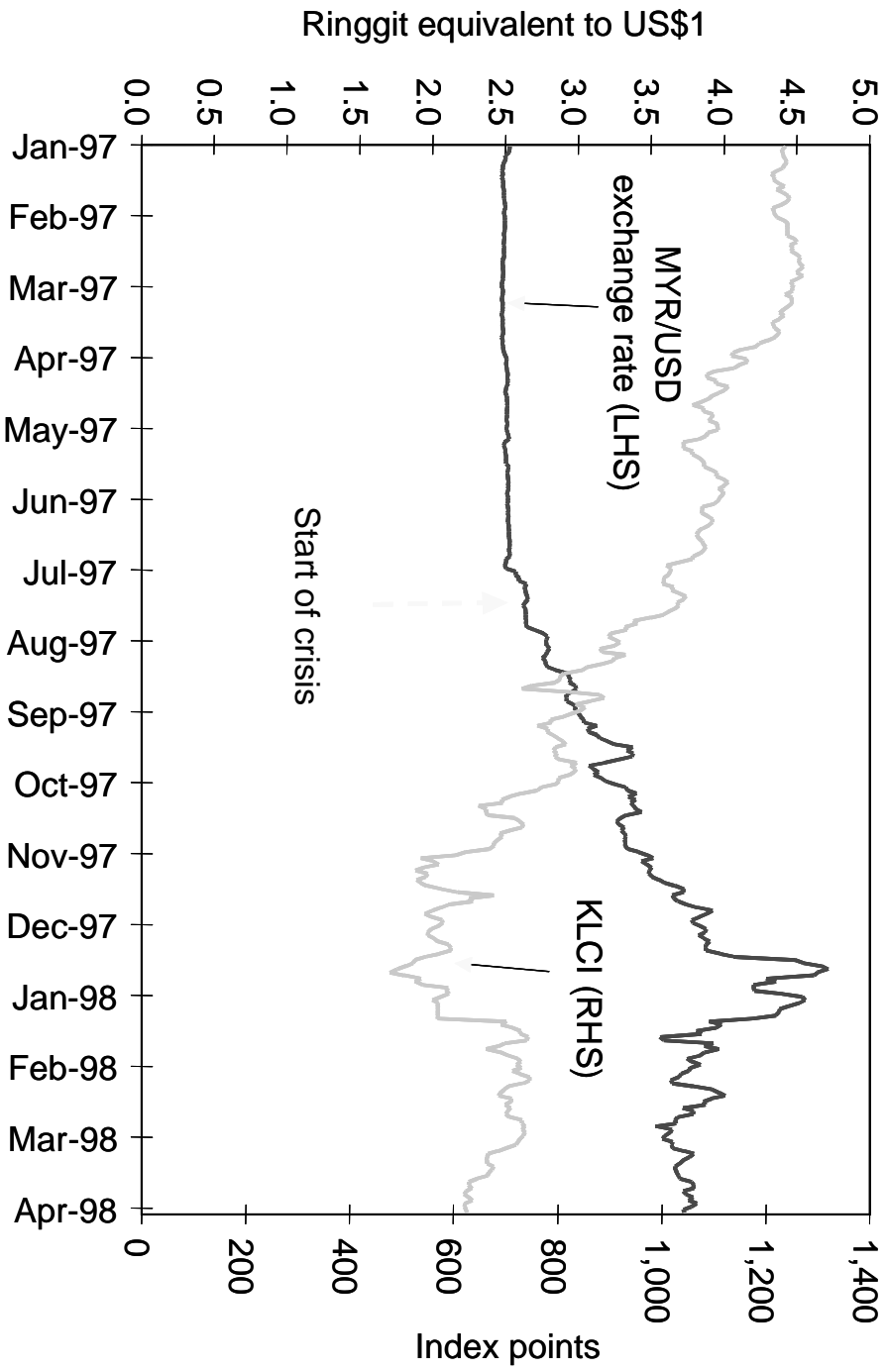


Principal reasons behind corporate distress





KLCI





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



New institutions established

3 new key institutions were established to spearhead efforts in corporate restructuring.

Danaharta

- To remove non-performing loans (NPLs) from the banking system;
- To maximise the recovery value of the acquired assets

Danamodal

- To recapitalise banking institutions and serve as a catalyst to consolidate and rationalise the banking sector

Corporate Debt Restructuring Committee (CDRC)

- To provide the forum for debtors and creditors to work out their debt problems without having to resort to the legal process



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



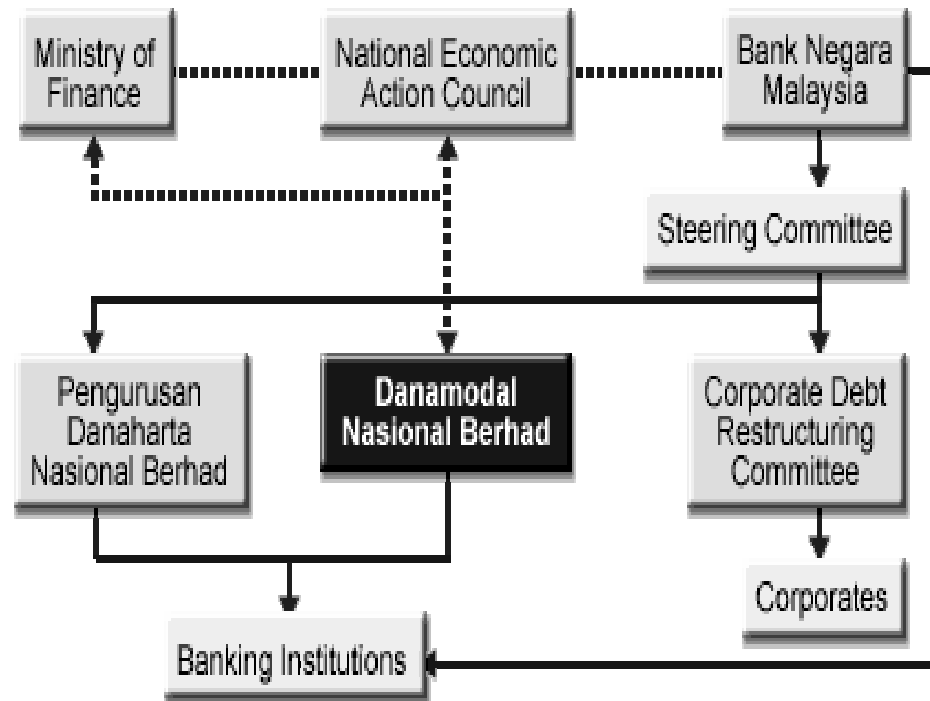
Danaharta

- 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

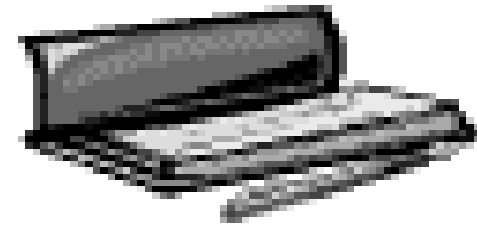
- Eligibility for CDRC assistance:
 - Total aggregate debt of approximately RM100 million or more from at least 5 creditor banks
 - Company not in any insolvency administration
- 5 stage work-out process





CDRC's achievement to date

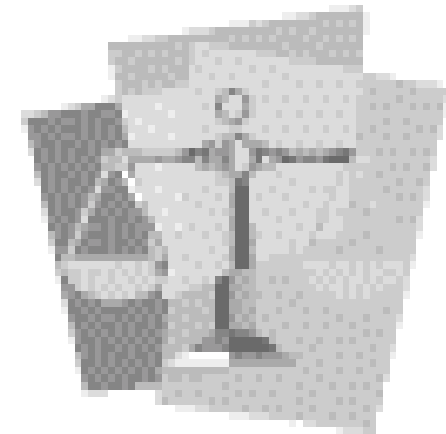
- Significant progress in 4th Q 2001; new initiatives announced
- **Resolved 37 cases** with debts amounting to **RM34.5 billion** since its inception in 1998 to December 2001, out of 63 cases with debts of RM RM56.7 billion
- As at 31 December 2001, 12 cases with debts amounting to **RM18.0 billion**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





SC's role

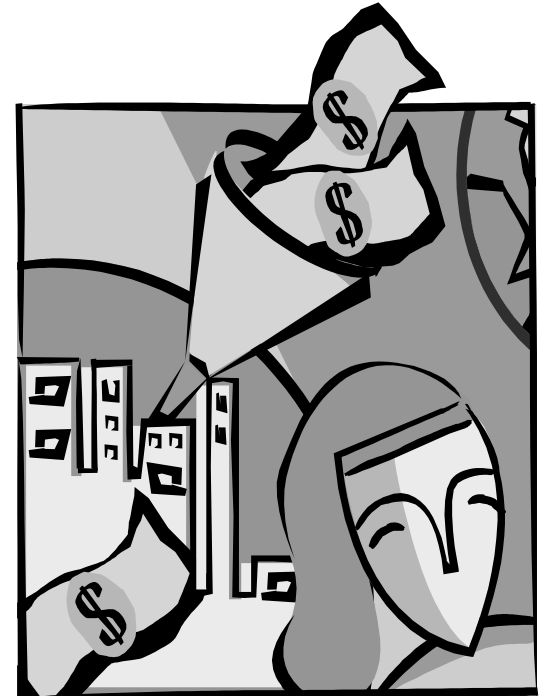
- **Facilitate** restructuring proposals from listed companies
- **Drive** restructuring of market intermediaries (stockbroking companies)





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



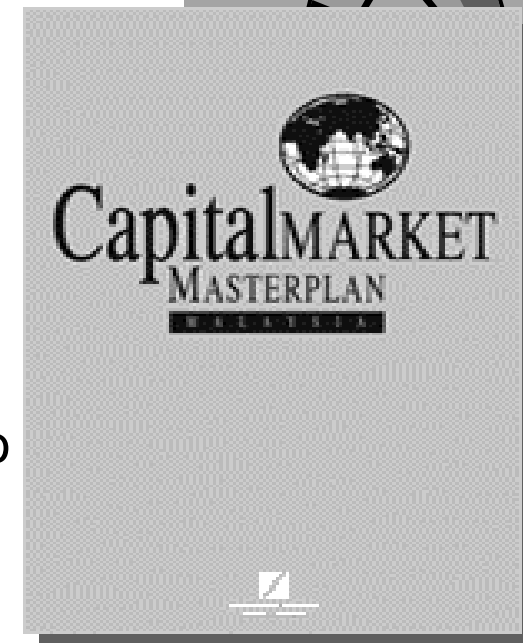
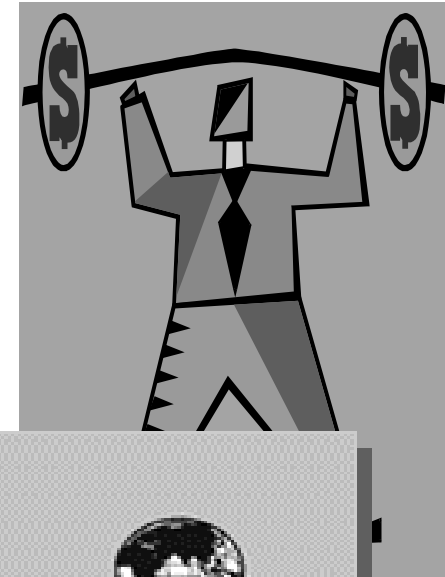
Broker scheme results

- 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



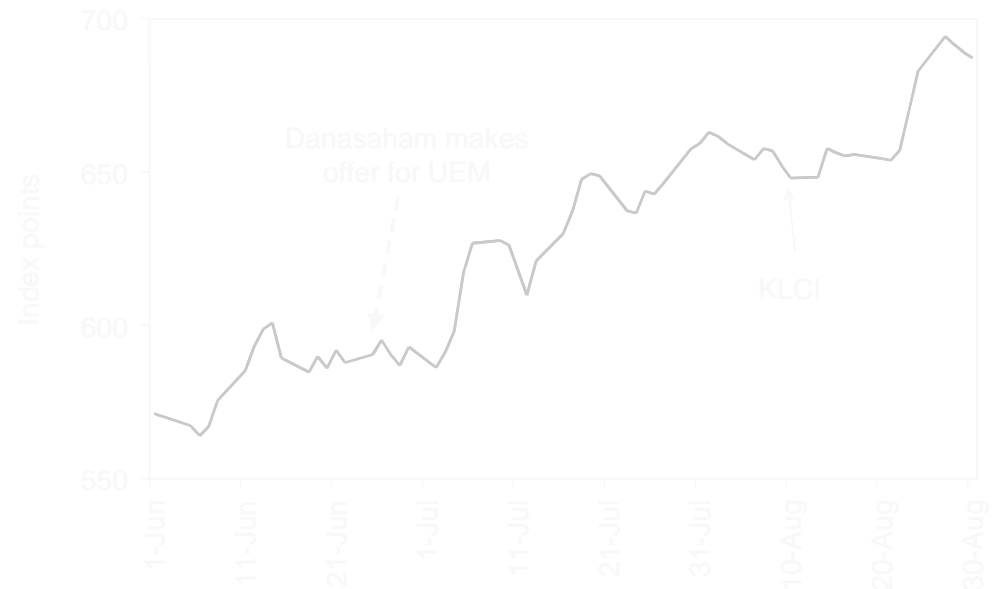
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UEM-Renong

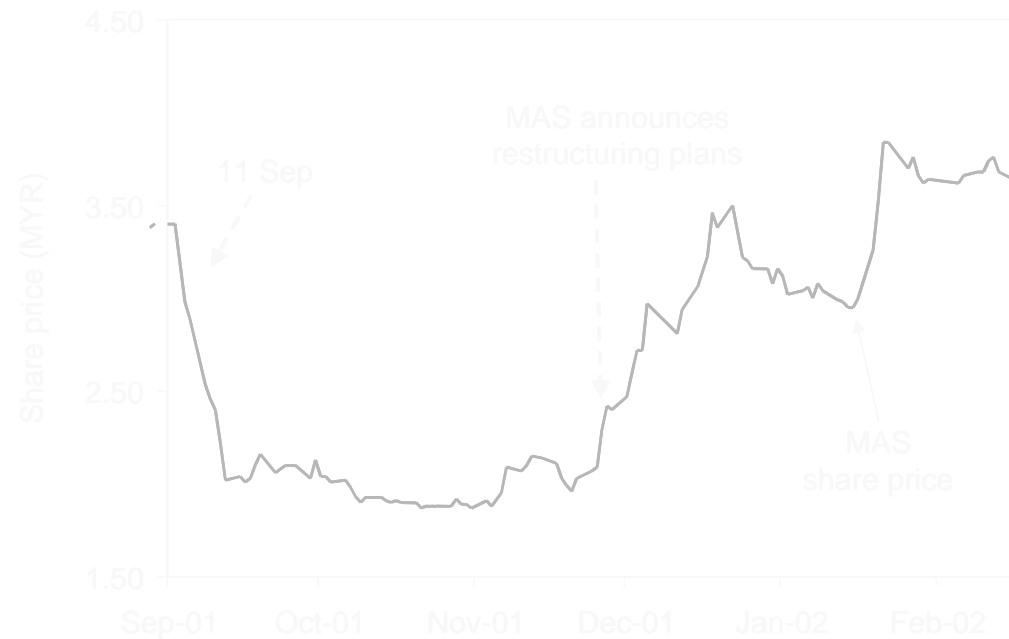
- Government made offer to take over company in July 2001
- Debts of company estimated at RM30 billion
- Favourable market response
 - ✓ KLSE among best performers in Asia in 3rd Q 2001 before 11 September





MAS

- 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