

GOVERNMENT LAUNCHES KRW2 TRILLION-PLUS PROGRAM TO PURCHASE CORPORATE ASSETS

The government announced its plans to launch a KRW2 trillion-plus program to purchase corporate assets at the 6th Meeting of the Central Economic Response Headquarters on June 11.

BACKGROUND

In order to provide liquidity and bolster financing options for businesses amid the pandemic, the government has made available KRW175 trillion-plus in financial support programs, from which about KRW52.6 trillion has been provided as of June 8.

Aside from the government-backed financing programs, companies have been selling off their assets to boost liquidity. Asset sell-offs are an important strategy for corporate restructuring and improving company's financial structure. For companies' self-rescue efforts to be effective, asset sell-offs should take place at fair prices.

To facilitate this, the government will set up a special purpose vehicle (SPV) at the Korea Asset Management Corporation (KAMCO) to purchase corporate assets at fair prices, stimulating private sector demand for corporate assets.

KEY DETAILS

A KRW2 trillion-plus SPV will be created through bond issuance from KAMCO with the possibility of expanding the fund size with participation from the privately managed funds. KAMCO will work to increase its funding capacity by making investments in assets with different term periods.

The SPV will purchase assets held by all sized companies but will primarily invest in assets that are unlikely to attract sufficient demand in the market. An input from outside experts, such as accounting firms, will be used to help establish objective and balanced pricing standards.

Based on the characteristics or types of assets and considering the future possibility of buybacks, the SPV will adopt different buying strategies—(a) buy and hold, (b) sale and leaseback, and (c) sale and call option agreement.

The Corporate Structure Innovation Support Center run by KAMCO will function as a platform to promote information sharing and act as an intermediary between sellers

and buyers. It will promote cooperation between KAMCO and other privately managed funds, such as the corporate restructuring fund managed by the Korea Growth Investment Corporation, creditors, private equity funds and pension funds.

SCHEDULE

After establishing specific plans for the program in June, KAMCO's asset purchase program will begin in July. If the size of companies' asset sell-offs exceeds KRW2 trillion, the government will consider expanding the size of the SPV or co-investment with the key industry stabilization fund.

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