Press Release

Potentially Non-viable Corporations Subject to Credit-risk Assessments

In line with the second phase of financial sector restructuring, the Financial Supervisory Service (FSS) announced that creditor financial institutions will assess the credit risks of potentially non-viable companies, and manage them accordingly. The action is expected to place the long-deferred resolution of ailing companies back on the right track and help restore stability in Korean financial markets by promptly resolving non-viable companies experiencing critical problems such as a liquidity shortage.

Companies with outstanding extended credit of 50 billion won or more as of July 31, 2000, will be initially examined. Among these companies, those that fall into one of the following categories will be subject to credit risk assessment: 1) Companies to which loans previously extended are now classified as "precautionary" or lower under FLC evaluation; 2) Companies that have recorded interest coverage ratio of less than 1 for three consecutive years. For those firms that are deemed potentially non-viable under each banks' specific regulations and guidelines, the creditor banks will determine, regardless of the amount of outstanding extended credit, whether or not to conduct credit risk assessment.

A Credit Risk Assessment Committee (CRAC) will be established at each creditor bank in October and will conduct risk assessment under its own guidelines. These guidelines, however, should comprehensively reflect qualitative factors such as industry risk, business risk, management risk, financial risk, and future cash flows. The Committee will be comprised of around 10 members, and should include outside experts while excluding any members who may present a conflict of interest or hold undue influence over the credit decision.

From November, creditor banks will group the companies subject to risk assessment into three categories: Companies with normal operation, companies with temporary liquidity problems, and companies with severe liquidity problems. For the first two groups, creditor banks will provide liquidity support, which will be overseen by the FSS in order to ensure that the companies in need of financial aid receive funds in a prompt and equitable manner.

For companies experiencing more severe liquidity problems, however, creditor banks will scrutinize their financial status more closely in order to determine whether or not they can be salvaged through the application of such measures as an equity swap by creditor banks. And if a company is deemed non-viable, it will undergo a prompt resolution process that is transparent and open to public. Resolution options include placing a company under court receivership, transferal to a CRV, liquidation, merger, or outright sale.

If you have any questions, suggestions, and/or comments, please feel free to contact the Credit Guidance Team at (82-2) 3786-8375 or the International Cooperation Office at (82-2) 3771-5975, fax (82-2) 3771-5985, or e-mail us at giovanni@fss.or.kr