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Financial Services Commission

Press Release

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NEW APPROACH TO CORPORATE RESTRUCTURING

FSC Chairman had a meeting with CEOs of commercial banks on April 13 to set out a new approach to corporate restructuring. The new approach was outlined to complement the existing framework of corporate restructuring; and to shift its focus to more market-based restructuring schemes, in which capital market players including private equity funds (PEFs) play a bigger role in corporate restructuring.

I. BACKGROUND

The existing system led by creditor banks has limits as companies today, which used to heavily rely on bank loans, are increasingly using capital markets for fundraising via issuance of corporate bonds or commercial papers (CPs). Such a change made the process of adjusting the interests of creditors more complex and difficult. Against this backdrop, the FSC outlined a new approach to corporate restructuring aimed at improving the current restructuring system led by creditor banks and stimulating capital market-based restructuring schemes through PEFs.

II. NEW APPROACH TO CORPORATE RESTRUCTURING

1. Credit Risk Evaluation System To Be Improved

- Banks will be required to revise their credit risk evaluation models and procedures within the second half of this year to make more accurate and rational evaluations so that they could sort out troubled companies to be put under restructuring in a timely manner.
- For companies under a workout program led by creditor banks, banks will have to adopt stricter evaluation standards to decide whether to continue the workout program or not. If the workout program proved inefficient, the company undergoing the workout would swiftly turn to alternative schemes such as a buyout plan led by PEFs or court receivership including the newly-introduced *'Pre-packaged Plan'* (or *'P-Plan'*).
- For those who have been under workout program for more than three years, an extension of the workout period will be permitted only in exceptional circumstances after a thorough evaluation by an external auditor.

2. Market-based Restructuring Schemes

- The FSC will lay the groundwork for a more market-based restructuring approach, in which PEFs would have the initiative in corporate restructuring. PEFs will take over debts of insolvent companies from creditor banks and more actively engage in their turnaround plans. Best practice guidelines will be established in the first half of this year to clarify terms and conditions for PEFs to take over the bonds of indebted companies, which will help swift resolution of conflicts in the process of takeover negotiations.
- A public-private joint fund of KRW 8 trillion will be raised over the next five years to provide sufficient liquidity in corporate bond market and further stimulate private investments into corporate restructuring. State-run banks including KDB, KEXIM and IBK will contribute KRW 4 trillion in the master fund, which will be matching with feeder funds of KRW 4 trillion from the private sector.

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