

Chapter 8

Financial Restructuring

Bank Negara Malaysia recognised that the banking sector had to be well capitalised to absorb higher business risks including enhancing their capacity to create new loans. The establishment of three special agencies, namely the Asset Management Company (AMC), the Special Purpose Vehicle (SPV) and the Special Steering Committee, is therefore to facilitate the financial restructuring process and result in the formation of a core group of strong banking institutions.

8.1 Asset Management Company (AMC)

On 20 May 1998, an Asset Management Company (AMC) called Pengurusan Danaharta Nasional Berhad (Danaharta) was established as a public company incorporated under the Companies Act, 1965 and is owned by the Minister of Finance Incorporated. Its prime objectives are to vitalise the financial sector through asset disposal process by buying NPLs from the banking institutions. The assets' values will be maximised by improving the overall stewardship of the assets (Danaharta, 1998).

Danaharta will allow the banking institutions to focus on their core businesses of lending and on their vital role in supporting economic growth.¹ Danaharta was initially set up as a government-owned entity and received a start-up grant of RM 50 million from the government. Preliminary estimate suggests that the total funding required will be RM 25 billion. Funding in the form of debt will largely come from the private sector.

¹ Related study (Reinhart, 1996) suggests that removing NPLs from the banks' balance sheets and transferring them to a separate loan recovery agency is an effective way of addressing the bank's stock problem.

Danaharta will purchase NPLs from the banking institutions at a fair market value after undertaking appropriate due diligence investigation. The government will hasten the assets acquisition by making appropriate amendment of certain legislation covering bankruptcy, foreclosure and taxation.

8.2 Special Purpose Vehicle (SPV)

A special purpose vehicle (SPV) known as Danamodal Nasional Berhad started its operations in September 1998. Danamodal was formed as a limited liability corporation, 100% owned by Bank Negara with initial capitalisation of RM1.5 billion. Its objectives are; (1) to recapitalise the banking sector via raising funds and consolidation, (2) to create stronger banking institutions through merger and acquisition, (3) to restore investor confidence, (4) to encourage the mobilisation of domestic capital as well as inflows of foreign capital, and (5) to allow the banking institutions to refocus their activities on prudent lending. Preliminary estimate suggests that Danamodal would need a total of RM16 billion (Danamodal, 1998a; 1998b; 1998c; 1998d).

To fund Danamodal, the central bank would further reduce the SRR from 4.0% to 2.0% at an appropriate time. The RM 8 billion funds released from this reduction in SRR would be invested spontaneously by the banking sector in bonds issued by Danamodal. Additional funds needed will be in the forms of equity, hybrid instruments, or debt in both the domestic and international markets by inviting the participation of supranational and/or multilateral agencies and other institutional investors.

At appropriate times, Danamodal will dispose of its investments via (a) initial public offerings; (b) strategic sales of its holdings; and (c) direct sales to the market, and distribute the residual value to shareholders of Danamodal. The proceeds realised from the sales of NPLs will be key determinants of the capital

injection required from Danamodal. Therefore, Danamodal and Danaharta will be insolubly linked to integrate their respective activities.

8.3 Special Steering Committee - Debt Restructuring

Corporate Debt Restructuring Committee has commenced its operation since 17 August 1998 and is expected to operate until the end of 1999 or earlier. Its objectives are: (1) to help companies restructure debt without resorting to court protection from creditors, and (2) to complement the role of Danaharta and Danamodal in restructuring the banking sector (Bank Negara Malaysia, 1998l; 1998t).

Companies who seek debt restructuring are required to meet certain criteria such as being viable businesses, having outstanding debt of at least RM 50 million or more, owing to more than three creditors, and not under receivership or liquidation.

In summary, the problems facing the Malaysian banking sector can be seen in various aspects; they are (1) falling profitability, (2) tight liquidity, (3) rising NPLs, (4) higher costs of funds, and (5) other exposures. The Malaysian government has implemented many strategies to reform its financial system. Part of this reform included systemic banking restructuring which aims to improve banks' financial and operational performance.