

FINANCING SUPPORT FROM KAMCO TO BE AVAILABLE FOR BUSINESSES FACING TEMPORARY INSOLVENCY RISK

The FSC announced that a revision bill on the Enforcement Decree of the Act on the Establishment of Korea Asset Management Corporation (“the Act” hereinafter) has been approved at a cabinet meeting held on December 13. This revision bill lays a legal foundation enabling the Korea Asset Management Corporation (KAMCO) to provide financing support to the enterprises showing signs of insolvency and those undergoing a workout process.

BACKGROUND

To be prepared for deterioration in business conditions, such as increases in interest rates and raw materials prices, financial institutions have been managing the insolvency risk of borrower companies through credit risk assessment and joint administrative proceedings (“workouts” hereinafter) pursuant to the Corporate Restructuring Promotion Act.

However, it has been pointed out that a quick turnaround from insolvency risk is difficult for the enterprises showing signs of insolvency¹ and those undergoing a workout process²--as specified by the Corporate Restructuring Promotion Act—due to inadequate availability of new financing injection. Against this backdrop, authorities have been seeking ways to set up a new financing support program for those companies administered by the KAMCO.

KEY REVISION DETAILS

The revision bill on the Enforcement Decree of the Act expands the type of eligible entities that can receive financing support from the KAMCO. Currently, the scope of eligible entities is limited to the enterprises undergoing or completed a court administered corporate rehabilitation process. However, with this revision bill, the type of businesses eligible for support will be expanded to include enterprises showing signs of insolvency and those undergoing or completed a workout process. This will allow the KAMCO to provide more wide-ranging support to businesses facing temporary insolvency risk and help them make a turnaround quickly.

¹ (Enterprise showing signs of insolvency) An enterprise that its principal creditor bank discovers, based on credit risk assessment, having difficulties performing its obligations in the normal course of business, such as repayment of a loan borrowed from a financial creditor, without an additional cash inflow from outside in addition to ordinary borrowings (Article 2-7 of the Corporate Restructuring Promotion Act).

² (Enterprise undergoing a workout process) An enterprise showing signs of insolvency that has applied for and entered into a joint administrative proceeding (workout process) decided by council of financial creditors (Article 8-1 of the Corporate Restructuring Promotion Act).

FURTHER PLAN

The revision bill for the Enforcement Decree of the Act will take effect on the day of promulgation. After it becomes effective, the KAMCO will prepare financial support program designed to help the enterprises showing signs of insolvency and those undergoing a workout process and begin to provide support in the first half of 2023.

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