A Review of Corporate Workout Systems

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Working Paper No. 73
September 2002

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Abstract

The inability of debtors to meet their obligations is a problem facing both developing and developed countries alike, particularly during financial crisis or periods of liquidity lightening. The experiences of the United Kingdom, Korea, and Mexico, reveal that financial restructuring avoids unnecessary liquidation of viable companies, an upsurge in unemployment, and a loss of productive capacities.

Financial restructuring approaches in each of these three countries may vary in the institutional structure but the rules have common features, and take into consideration the specific country case such as the nature of corporate debt, how much of it was denominated in foreign currency and how much was held by foreigners. New lending, interest rate reduction, convertible bonds, and debt-equity conversion were the most employed instruments in the financial restructuring of viable companies.

Successful financial restructuring requires: cooperation between and independent central bank, and a higher government authority to push creditors and debtors to reach a voluntary agreement, managed by a lead bank without the interference of legislative authorities. Both creditors and debtors must be ready to bear some losses, financial restructuring units within banks need to be created, and the bankruptcy law should be strengthened. An arbitration unit is required, and the company’s long-term viability, based on well-defined criteria, should be assessed by an independent unit.

ملخص

إن عدم قدرة المدينين على الوفاء بالتزاماتهم هي مشكلة تواجه البلدان النامية والبلدان المتقدمة على حد سواء، وخاصة خلال الأزمات المالية أو فترات السيولة المحدودة. وتكشف تجارب المملكة المتحدة وكوريا والمكسيك أن إعادة الهيكلة المالية تتجنب التصفية غير الضرورية للشركات القابلة للاستمرار وتزايد البطالة وفقدان القدرات الإنتاجية.

ورغم أن مناهج إعادة الهيكلة المالية في كل من هذه البلدان الثلاثة قد تختلف من حيث البنية المؤسسية فإن القواعد لها سمات مشتركة وتأخذ في الاعتبار خصوصيات البلد مثل طبيعة ديون الشركات، ومقدار المقوم منها بالعملة الأجنبية وحجم الديون التي في حيازة الأجانب. وقد تبين أن الإقراض الجديد، وتخفيض معدل الفائدة، والسندات القابلة للتحويل، وتحويل الديون إلى أسهم كانت من أكثر الأدوات المستخدمة في إعادة هيكلة الشركات القابلة للاستمرار.

وتتطلب إعادة الهيكلة المالية الناجحة تعاونا بين بنك مركزي مستقل وسلطة حكومية أعلى لدفع الدائنين والمدينين للوصول إلى اتفاق طوعي يديره بنك رئيسي دون تدخل من السلطات التشريعية. ويجب أن يكون الدائنين والمدينين على استعداد لتحمل بعض الخسائر، وينبغي إنشاء وحدات معنية بإعادة الهيكلة المالية داخل البنوك، كما يتعين تعزيز قانون الإفلاس. كذلك يلزم إنشاء وحدة للتحكيم وتقييم قابلية الشركة للاستمرار في المدى الطويل وذلك وفق معايير محددة جيدا وذلك من جانب وحدة مستقلة.

I. Introduction

During financial crises or periods of liquidity tightening, it may be necessary for banks and large corporations to come together and resolve the inability of debtors to meet their obligations. This is often difficult when a number of creditors are involved with one corporation. The problem becomes acute when there are a large number of such cases to resolve. Both banks and corporations may be fragile and the generally weak bankruptcy systems would be overrun by a large number of cases. At such times, it is important to have a systemic approach to corporate workouts.

The three cases discussed in this paper are based on a voluntary approach to corporate workouts. In the first case, the London Approach, the Bank of England uses its powers of persuasion to bring the debtors and creditors to the negotiating table. Over time clear rules of the game have evolved. During the East Asian crisis, Korea, Thailand and Indonesia each adopted variants of the London Approach, but Korea provides the most effective and robust example so its case is presented herein. In Korea, the Financial Supervisory Commission (FSC) undertook both bank and corporate restructuring. The FSC established the workout process and, like the Bank of England, chose to steer and guide the process. Finally, during the Tequila Crisis, Mexican authorities reacted to the need for corporate workouts by establishing a Presidential Commission to handle the crisis.

In each of these cases the institutional structure may vary, but the rules have common features: (i) a standstill period while negotiation takes place; (ii) the role of a lead creditor institution; (iii) a higher authority that can push cases to resolution; (iv) professional due diligence – usually an audit firm and in large cases insolvency experts; (v) a majority agreement amongst creditors binding all creditors; (vi) rescheduling of financial obligations complemented by some necessary defensive restructuring; (vii) willingness of both creditors and debtors to absorb losses; and (viii) securing new working capital that will allow the company to operate once an agreement is reached.

II. The London Approach

During the mid-1970s, when the UK entered a period of industrial recession with high inflation, commercial banks had to rapidly establish workout units and internal policies in order to deal

with the vast increase in the number of bad loans. However, there was little experience with workouts and how to organize workout units within the banks. Insolvency legislation was outdated and did not provide tools for voluntary restructuring, including protection of new money and processes limiting the ability of a small group of creditors to block a workout settlement between the majority of creditors and the company.

Against this backdrop, the Bank of England (hereby referred to as "the Bank") chose to become actively involved in individual company workouts. The Bank's main objectives[1] were:

- to minimize losses to banks and other parties incurred from unavoidable company failures, through coordinated and well-prepared workouts;
- to avoid unnecessary liquidation of viable companies, through reorganization and the preservation of employment and productive capacity;
- to provide support in cases where creditors could not agree to the terms under which a workout could be concluded.

The involvement of the Bank in company workouts was possible because its statutes did not limit its activity to a narrowly-defined role. In fact, the Bank's policy was entirely unconnected with banking regulation. As far as companies were concerned, the Bank was trusted because it was considered impartial, independent and confidential. In many cases, the Bank would call the participating banks together and, if there was no lead banker, arrange that one of the major lenders would assume that position. The Bank would lead the various meetings where solutions were prepared, immediate actions such as payment of wages were implemented, or when premature liquidation by banks that called in their loans ("renegade banks") had to be avoided. Other steps, such as agreements on new money or a change in management were prepared with the guidance of the Bank.

During the 1970s the authorities were quite ready to intervene in corporate workout situations without the Bank committing any of its own funds. Following the election of a more market-oriented government in the US and the UK, long and sustained economic growth

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[1] Kent, Pen (1997), "Corporate Workouts – A UK Perspective," *International Insolvency Review.*

occurred during the mid-1980s with a completely changed financial industry.[2] As a result, the Bank reviewed its policy on corporate workouts. It decided to reduce its direct contact with companies in difficulty, leaving the task of developing restructuring strategies to the private sector. It saw its new, reduced role as diplomat and catalyst,[3] which would motivate the parties involved to work toward generally agreeable workout solutions.

After consultations with the banking community in the UK, the Bank decided during the early 1990s not to formalize its restructuring framework, now called the "London Rules." [4] It was feared that foreign banks might challenge such strictly formalized rules in court. In addition, the framework had to remain flexible and adaptable. The Bank, therefore, chose to define and communicate the framework concerning the conduct of corporate workouts through speeches, rather than formal policy documents.

The London Approach (London Rules) provides general guidance to banks and other creditors on how to react to a company facing serious financial difficulties. This guidance, however, is not statutory and the Bank does not have any powers of enforcement. Banks and other parties do act in their own self-interest. However, by ensuring certain rules for restructuring, the London Approach aims to avoid unnecessary damage and foster solutions which benefit all banks or creditors involved. The key features of the London Approach are:

- A willingness by the main creditors to initially consider a non-statutory resolution to a company's financial difficulties, rather than resort to a formal insolvency procedure (liquidation, administration, or a company voluntary agreement [CVA]), and without recourse to other enforcement procedures such as receivership and administrative receivership;

[2] The demand for new corporate finance instruments (e.g., hedging, leveraged M&A deals, complex syndicated facilities), which were financed with short and medium-term facilities, resulted in high debt ratios. Therefore, at the brink of the 1989 economic downturn many UK corporations experienced severe liquidity problems. Further, the multiplicity of banking relationships created management problems for borrowers which tried to develop workout solutions.

[3] Note that the rules of the London Approach do not apply to banks in difficulty, as they present quite different problems, due to their nature, for the Central Bank as the role of banking supervisor.

[4] The term "London Approach" was used until David Lascelles published an article in the November 1990 issue of the *Financial Times*, naming the Bank of England's new policy approach the "London Rules."

- As part of this consideration, the creditors can commission an independent review of the company's long-term viability, drawing on comprehensive information made available by, and shared between, all the likely parties to any workout;
- During the period of the review, the company's bankers agree to maintain their facilities effectively operating at an informal standstill sufficient to preserve the confidence of suppliers and customers by allowing the company to continue to trade normally;
- Drawing on the independent review, the company's main creditors work together to reach a joint view on whether, and on what terms, a company is worth supporting in the longer term;
- To facilitate these discussions, a coordinating or lead bank may be designed and a steering committee of creditors formed;
- In addition to the maintenance of existing facilities, it may be necessary to allow the company to supplement its existing borrowing with new money, in case of an immediate liquidity shortfall. New money may be provided on a pro rata basis by all existing lenders, by specific lenders with priority arrangements, or through the release of asset disposal proceeds subject to priority considerations;
- Other principles underlying this critical period of financial support include the recognition of seniority of claims and the sharing of losses equally between creditors in a single category;
- If, on the basis of the review, there is an agreement among creditors that the company is indeed viable in the long-term, the creditors will move to consider more lasting forms of financial support, e.g. an interest holiday, extension of loan maturities, further lending of new money and/or conversion of debt into equity;
- Such longer term financial changes will need to be conditional on the implementation of an agreed business plan which may well involve management changes, sale of assets or division, or even the takeover of the company;
- The London Approach does not guarantee the survival of a company in difficulty. Regulatory authorities do not intervene and, because of its voluntary nature, the London Approach can only be effective as long as it is supported by the banking community.

The London Approach was instrumental during the recession of the early 1990s. Many companies only survived because their banks, bondholders and other creditors sought out and reached a collective solution for the financial restructuring of viable businesses. The Bank has been actively involved in over 160 restructuring cases since 1989. Even more important is the fact that numerous workouts have been achieved by using the principles of the London Approach without the Bank's direct intervention. It can be clearly concluded that the London Approach preserved value for creditors and shareholders and saved jobs as well as productive capacity.

III. Is the London Approach Replicable?

East Asian countries naturally turned toward the London Approach when it became obvious that a general scheme for corporate debt restructuring was needed. However, a detailed assessment of the framework developed in the region revealed several differences and divergences from the London Approach depending on the specific country case. The type of relationship between business and government, the nature of corporate debt, how much debt was denominated in foreign currency and how much was held domestically or by foreigners were all factors that influenced the frameworks adopted in each country.

IV. Korean Corporate Restructuring

The Korean Government (through the FSC) encouraged lead banks to first focus on voluntary (i.e., out of court) workout of the "6-64" chaebols (mid-tier chaebols, ranked by asset size). The 6-64 chaebols tended to be those in deepest distress, generally lacking the financial resources and clout to restructure on their own. A large number of insolvencies among this group could have created an upsurge in unemployment, putting severe social distress and political pressure on the Government to abandon its reform program. Moreover, a series of major defaults could have provoked a secondary financial crisis, leading to pressure on the currency and interest rates. The 6-64 chaebols tended to be less complex, and therefore, potentially easier to restructure than the Top 5 chaebols – Hyundai, Samsung, Daewoo, SK, and LG. In the FSC's view, experience gained by restructuring chaebols from among the 6-64 group would prepare lead banks (and their professional advisors) to take on the Top 5 chaebols, whose size and complexity place them in a league of their own.

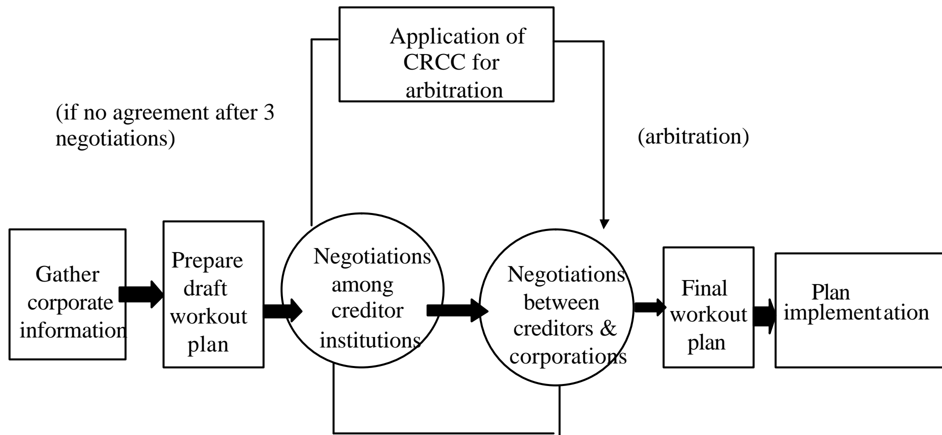
To support restructuring of the 6-64 chaebols, the FSC promoted a Corporate Restructuring Accord (CRA), signed on June 25, 1998 by over 200 banks and non-bank financial institutions. The workout process follows the London Principles for out-of-court resolution of financial restructuring cases. Key provisions of the CRA included the following:

- A Steering Committee of 10 representatives from participating financial institutions responsible for implementing, amending, and terminating the CRA. The CRA was scheduled to run until December 31, 1999 unless the term was amended by the Steering Committee; in fact, its term was extended for one additional year until December 31, 2000;
- A Corporate Restructuring Coordination Committee (CRCC) was created to act as an arbitration committee. The CRCC consists of a chairman, 7 senior banking and industry representatives, supported by a technical unit of 10 full-time staff. The CRCC was responsible for assessing the viability of corporate candidates for restructuring, arbitrating differences among creditors, enforcing CRCC decisions and, when necessary, modifying workout plans proposed by participating creditors;
- Six lead banks were nominated to take charge of corporate restructuring for the 64 large corporate groups. Workout units focusing on corporate restructuring were created within all commercial banks. In addition, the workout units within the lead banks augmented their capacity and are being assisted by external financial advisors retained under a World Bank technical assistance loan;
- A Council of Creditor Financial Institutions ("Council") is formed when creditor financial institutions must assist the restructuring process. In other countries, the council is often known as the creditors' committee. Organization and operation of each Council is managed by a Presiding Bank, i.e., either the lead bank or the bank holding the largest amount of debt for a company. Each Council is convened within 10 days of a request from any financial institution(s) that holds more than 25 percent of a debtor's financial institution debt;
- Financial institutional creditors holding a majority of credits in a chaebol affiliate may decide to pursue joint workouts with one or more other chaebol affiliates if a majority of their financial institution creditors agree;

- From the date of notice that a Council will be convened, CRA signatories defer rights for discharge of debts, including debt repayment, and their claims for discharge of guaranteed obligations. In essence, a Standstill Agreement goes into effect;
- A workout may involve debt/equity conversions, term extensions, deferred payment of principal or interest, reduction of interest rates, waiver of indebtedness, provision of new credits, cancellation of existing guarantee obligations, sale of non-core business, and new equity issues; the workouts employed combinations of all of these instruments;
- Council decisions require approval by financial institution creditors holding at least 75 percent of the financial institution credits (it is important that 100 percent be avoided so small banks or small creditors do not cram down on larger creditors and prevent solutions.) A presiding bank may apply to the CRCC for arbitration at any point in the process to clarify an issue or after failing three times to get voluntary agreement among creditors on a proposed workout;
- Within one month of an application for arbitration from a presiding bank, the CRCC provides written opinion to all the debtor's financial institution creditors as well as the relevant regulatory agencies.
- If a CRA signatory fails to comply with an approved workout agreement or CRCC arbitration decision, the CRCC may fine this signatory up to 30 percent of the credit amount in question or up to 50 percent of the cost of non-compliance. The Council will decide the criteria for distributing any fine among the other financial institutions.

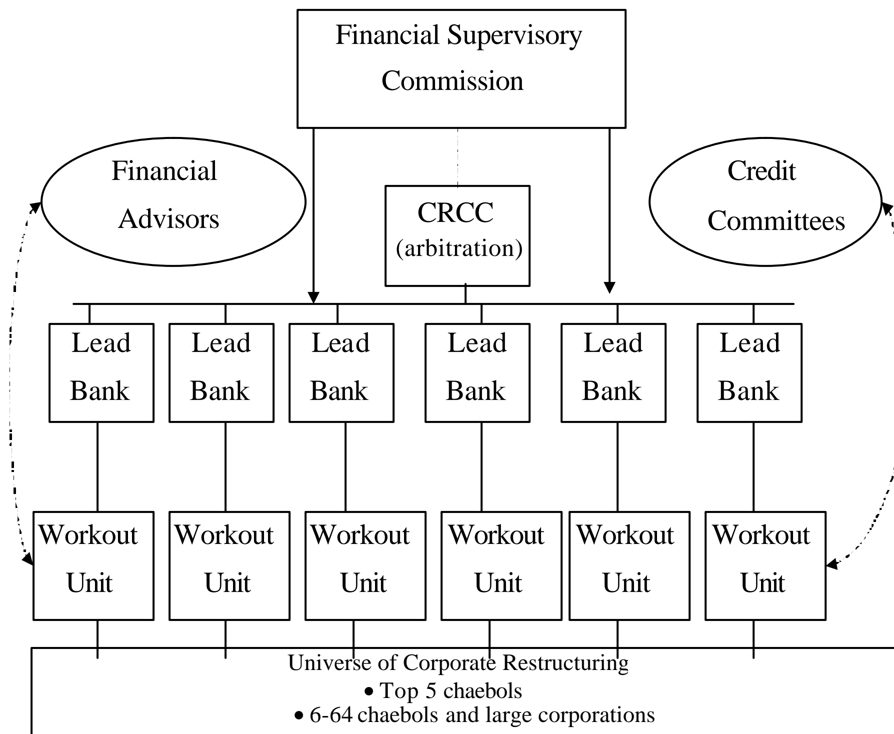
The CRA provided expedited procedures and tight deadlines. The time frame, while aggressive, encouraged an initial emphasis on balance sheet restructuring prior to asset sales and new equity investment which tended to be more time consuming. Only 75 percent agreement is needed for creditor approval of proposed workouts and for CRCC rulings. It has taken some 3-6 months on average to reach an agreement on workout plans. Under the pressure of tough deadlines, the initial due diligence prior to a workout agreement tended to focus on financial viability and financial projections with little emphasis placed on sensitivity analysis and alternative restructuring scenarios. Moreover, inadequate emphasis was placed on deeper restructuring, replacement of management and an analysis of fundamental viability of the business in the longer term.

Figure 1: Corporate Financial Restructuring: Workout Process



Approach: London Principles focus on out-of-court restructuring of debt.

Figure 2: Corporate Financial Restructuring: Institutional Structure



V. Preliminary Conclusions Regarding the Workout Process

As of March 31, 1999, 79 companies had entered the workout process under CRA rules representing 35 different corporate groups. Seventy-one of these companies reached an agreement on their workout plans, 6 plans remain to be finalized, and 2 groups were dropped due to non-viability and non-compliance by the group's owner. Of the 35 corporate groups, 39 affiliates from 15 mid-tier chaebols initiated negotiations. Another 26 large companies and 14 SMEs similarly embarked upon negotiations under CRA rules.

Initially, reported results suggested that the workout process was significant; however, there was concern that the initial workouts defer debt for some 3-7 years, with virtually no debt reductions or write-offs. There is the potential, therefore, for a balloon effect in a few years when the restructured debt matures. Most of the debt workouts were completed by the end of 1999 since the debt was mostly held by domestic financial institutions, but new financing took place in a series of operations (tranches) and took a few years to complete. Moreover, the chaebols will need to demonstrate that they can operate profitably in order to attract substantial new capital.

A review of the workout terms agreed upon by debtors and creditors supports the following conclusions:

- Significant operational restructuring (e.g., asset sales) and new equity issues are underway or being contemplated in many cases. However, over-saturation of asset and equity markets makes it impracticable to rely solely on asset sales, foreign investment, and new equity issues for initial restructuring of the 6-64 chaebols;
- Self-help contributions from major shareholders are modest at best;
- Initial implementation of these workout deals feature concessionary debt restructuring (interest rate reductions and convertible bonds), which accounted for about two-thirds of the voluntary restructuring in 1998 among 6-65 chaebols. Very little debt was written off;
- Since the first round of restructuring deals for distressed 6-64 chaebols is complete (with a heavy dose of concessionary debt restructuring), financial institution accounting regulations for restructured loans should now be tightened;

- Many of the CRA workouts agreed upon so far will need to be renegotiated over the next 1-3 years. Within the context of a systemic crisis, however, the first round of restructuring deals has yielded reasonable initial results.

Table 1: Comparison of Debt Restructuring Terms

Item	Lead Bank/Chaebol Affiliate				
	Korean First	Seoul Bank	Hanil	Chohung	CBK
	Shinho Paper	Jindo	Kohap	Anam Semi-conductor*	Kabool Ltd. and Kabool Textiles
Interest rate reduction (Won)	From 16.2% to prime for W586 billion	To prime for W672 billion	From 16.8% to prime for W4.3 trillion	Prime or agreed rate until 2003	Greater of prime or 10%
Deferral of principal	Until 12/31/02	Until 12/31/02	Until 12/31/00	Until 2004	Until 2003
Deferral of interest	Accrued until 9/30/99	Capitalized until 6/30/99	Capitalized until 12/31/00	Capitalized (until 3/00?)	Capitalized until 12/31/99
Debt/equity conversion (Won)	W80 billion with sale restricted until 12/31/02	W120 billion; (restrictions on sale?)	W209 billion (restrictions on sale?)	Yes – creditors expect 75%	W30 billion – creditors expect 75%
Substitution of convertible bonds (Won)	W350 at 1% yield, maturing 12/31/02; sale of converted equity restricted until 12/31/02	W175 billion at 0.1% yield; 4-year maturity (restrictions on sale?)	W182 billion at 7% yield 7-year maturity (restrictions on sale?)	Only for semi-conductor loans to affiliates	For W345 billion of unsecured debentures/ for 5 years at 1% yield
Cross guarantees (Won)	W68.5 billion forgiven; standstill on W299 billion until 2002	Standstill on W320 billion until 2002	Expires 10/1/98	Accept bond for affiliate guarantees	N/A
Other principal or interest forgiveness (Won)	None	None	Zero interest until 12/00 on W109 billion	None	None
New lending	W50 billion working capital at prime+2 $70 million trade finance	$86 million trade finance	W200 billion working capital $82 million l/c	W100 billion	$50 million for raw material imports

*Negotiations still underway.
Source: Lead banks, FSC, YSJ, and GS.

Table 2: Application of Debt Restructuring Methods

Debt Restructuring Method	Amount (Won billions)	%	Typical Application
Rate reduction	16,968	69	Secured debt
Debt/equity conversion	1,093	5	Unsecured debt
Convertible bonds	1,701	7	Excess unsecured debt
Interest exemption	3,639	15	Cross guarantees
Forgiveness of principal	562	2	Cross guaranteed debt and excess unsecured debt
Term extension only	555	2	Secured debt
Total	**24,518**	**100**	

Source: FSC and CRCC.

VI. Mexican Corporate Restructuring

Following the re-privatization of the Mexican banks in 1992,[5] credit expanded very rapidly reaching a peak of $117.8 billion in 1994.[6] Faced with an acute shortage of foreign reserves, in December 1994 the Mexican Central Bank allowed the Peso to float against the Dollar. The resulting sharp rise in interest rates and increased cost of foreign debt created a liquidity crisis that was exacerbated by the slump in domestic demand. The crisis forced a number of the *Grupos*, which had diversified and grown very rapidly in the early 1990s, to restructure their debts. The Mexican Bankruptcy Law, perceived by virtually all analysts of Mexico's financial system as very weak even before the crisis, was clearly an ineffective instrument for orderly workout or liquidation of troubled companies.[7]

It permitted many debtors to stave off creditors' claims almost indefinitely; during the so-called Tequila Crisis, debtors used bankruptcy as a threat or weapon more often than creditors did. The law does not provide for consolidated bankruptcy, so a company with many subsidiaries and affiliates would have many separate bankruptcy cases under separate judges. Any company that is insolvent (liabilities exceed assets) is likely to be put into *quiebra* (liquidation) by a motion of its creditors and will not be reorganized.[8] As a result of the shortcomings of the Bankruptcy

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[5] Mexico's commercial banks were nationalized during the external debt crisis in December of 1992 as the last act of the out-going President, Lopez Portillo.

[6] World Bank (1998), "Mexico: Strengthening Enterprise Finance," Report No. 1773ME, p. iii.

[7] Ibid, p. 75 quotes a Mexican expert on the Bankruptcy Law "In summary, we know of no one who believes that (The Bankruptcy Law) is a good law, not even a mediocre (law)." Mejia, Davalos, "Titulos Y Contratos de Credito," Quiebras, Haria, SA.A. de C.V., Primera Edicion, p. 527.

[8] Davies, Raymond, Lehman Brothers, "Overview of Post-Peso Crisis Mexican Corporate Restructurings and Lessons Learned," p. 113, Conference on Corporate Restructuring, May 7-8, 1998, Seoul, Korea.

Law, the Mexican Government created an institutional structure known as *Unidad Coordinadora del Acuerdo Bancario Empresarial* (UCABE) during the crisis to orchestrate the voluntary restructuring of 30-40 of the largest debtors. The Mexican Banking Commission and Fobaproa (a bank support fund), responsible for purchasing distressed assets form Mexican banks, also helped organize the banks so they could deal with their large problem cases using a unified approach.[9]

UCABE, the entity responsible for coordinating agreements between banks and enterprises, was created on December 13, 1995 as a "unit" of the joint commission between the Mexican Banking Commission (*Comision Nacional Bancaria y Valores* or CNBV) and the Mexican Banking Association (*Asociacion Mexicana de Bancos* or AMB). UCABE was established largely through the initiative of Mexican President Ernesto Zedillo, in an attempt to bring stalled debt negotiations between the banks and major debtors to rapid conclusions. Four senior executives ran UCABE on a voluntary basis at the request of the President. The Mexican Government and the AMB concluded that "satisfactory progress in large corporate debt restructuring was not being made by the workout groups in the individual banks, and that the relationships between debtors and creditors had deteriorated to such a degree that productive negotiations had become severely impeded."[10] UCABE could be traced back to President Zedillo's direct experience in the external debt crisis of the 1980s, in which agreements on corporate workouts were negotiated years after the initial crisis in 1982.

Critical lessons learned from the so-called "lost decade" include the following:[11]

- Debt restructurings could take years to complete;
- Solutions required sacrifice by all parties to the negotiations;
- Creative financial mechanisms and instrumentation could catalyze a solution;
- New cash was often critical to reaching agreement;
- Active sponsorship by the Mexican government was essential.

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[9] World Bank, p. 115, op. cit., p. 11.

[10] Jones, Peter (1996), "UCABE: A Troubled Debt Restructuring Unit," February 1 (mimeo) – consultants' reports to the World Bank.

[11] Ibid, p. 2; also the discussion is based on interviews conducted by Ira Lieberman in 1995-1996 with UCABE's senior management.

UCABE was a mediator in large corporate restructuring cases, targeting companies with $150-500 million of bank debt. Holding a total of some $8 billion in debt, these companies represented approximately 8 percent of total outstanding loans in the Mexican banking system as of end-1995. UCABE sought to preserve the viability of these firms, sustain employment and promote economic recovery. It worked out potentially viable companies – defined as those having a positive cash flow, a significant base of employment, a leader or an important player in its market niche, and a competitive cost structure.

Banks operating within the UCABE framework needed to compensate for the weaknesses in the legal framework, namely the absence of a viable bankruptcy system and any formal framework for workouts. They agreed to follow specific rules of conduct[12] regarding:

- selection of a lead negotiator bank
- decision by majority rule
- adoption of standstill agreements
- seniority of secured credit
- preferential treatment of new voluntary loans
- subordination of existing guarantees
- identification of a sustainable amount of debt
- use of debt swaps between banks
- use of debt capitalization and other financial engineering techniques to reduce the overall debt burden and to allow exit

Shareholders and debtor companies also followed rules regarding the provision of new capital, dilution of ownership rights, and the strengthening or replacement of company management in order to facilitate reaching a final agreement.

The advantages of the scheme appear clear – a flexible and agile voluntary process to meet the needs of the debtor and the creditors, top level government commitment through the office of the Presidency, and provision of new financial resources. The disadvantages were that

[12] Peter Jones, pp. 2-3, op. cit., p. 12.

the process was discretionary and ad hoc – it lacked published guidelines, did not address the fundamental weaknesses of the Mexican bankruptcy system, and it was an extra-legal system that could be subject to court challenge.

In total, 30-40 companies were restructured through UCABE, though no results or proceedings of its operations have been published. This is also true for the London Approach, in which confidentiality is maintained. Nevertheless, there is information on a number of major workouts, some of which were handled with UCABE's support, as summarized in Table 3. It is interesting to note that some of the workout cases, such as Mexicana de Aviacion and Aeromexico were problematic state-owned firms in the 1980s that were privatized in the early 1990s – apparently without adequate restructuring – and emerged again as problem cases in the most recent crisis.

Table 3: Summary of Selective Workouts in the Mexican Financial Crisis, 1995-96

Company	Original Capital Structure	Restructuring	Comment
Aeromexico	- $500m bank debt - $38m commercial paper - $100m Eurobond - Aircraft leases	- Bank debt converted to 95% of equity - Aircraft leases restructured - Original equity retained 5%	- Solicited as US pre-packaged bankruptcy 97% success rate of exchange - Bankruptcy option not used
Mexicanade Aviacion	- $500m bank debt - Aircraft leases	- Bank debt converted to 95% of equity - Aircraft leases extended - Canceled leases partially repaid - Original equity retained 5%	- Original controlled subsidiary of Aeromexico - Separately restructured, then combined with Aeromexico in a new holding company Cintra
Tribasa (Construction)	- $580m Mexican bank and public debt - $250m Eurobonds - $100m non-Mexican lenders	- Bank debt restructured - Eurobonds purchased by investor group, including controlling family, and converted into new equity	- Original underwriters sold, retained Eurobonds to investor group (at prices in the 40s), who purchased additional bonds in the open market

Company	Original Capital Structure	Restructuring	Comment
Grupo Dina (Bus and truck manufacturer)	- $206 m senior secured discount notes - $320 m Mexican bank debt - $199 m bank debt of US subsidiary	- Mexican bank debt restructured - Eurobonds exchanged for new debt guaranteed by equity of US bus manufacturing subsidiary	- Unsold debt held by original underwriter and US investors - Secured notes structurally subordinated to Mexican and US bank debt
Synkro (Hosiery manufacturer)	- $325 m Mexican bank debt - $50m US subsidiary debt - $50m Eurobonds	- Mexican bank debt converted to equity - US subsidiary debt unimpaired Eurobond debt converted to equity or new debt at 50 cents on the dollar	- Mexican banks took control of company and installed new management prior to restructuring - Original equity retained 5.6% of new equity
Group Simec (Steel manufacturer)	- $253m Mexican bank debt - $68m medium-term notes due Dec. 1998	- All debt restructured into 10-year debt - MTNs received new 10-year third mortgage bonds	- $57 m of MTNs tendered in original exchange offer - Total company reorganized and restructured
Grupo Sidek (Diversified)	- $15 bn Mexican debt - $90m foreign bank debt - $133 m MTNs - $200 m securitized debt	- Debt restructured into quasi liquidity trust - Secured debt received A notes expected to be paid in full without interest - Unsecured debt received B notes	- Complexity of corporate structure could not be resolved; simple solution to liquidate company developed - Foreign creditors holding $105 m did not join the plan and are attempting to sue in Mexico
Grupo Vitro (Glass and chemicals)	- Ps 1,323m debt - $882 m debt	- Immediate cash conservation measures implemented - $884 m assets sold, including US subsidiary Anchor Glass - Recapitalization - Debt restructuring – reduced annual interest expense by $245m in 1997	

Company	Original Capital Structure	Restructuring	Comment
Orion Leasing (Peso)	- Ps 187,950,071 bank debt - Ps 320, 382,579bonds outstanding - Ps 138,418,920 government bank debt	- Ps 30,000,000 real estate repossessed - Ps 96,300,000 debt equity swap; original shareholders retain control - Ps 30,000,000 fresh capital injection - Ps 224,752,500 debt restructured in three tranches	- Existing leases graded and new products offered

Sources: Proceedings of Corporate Restructuring Seminar, May 1998 : Korea Institute of Finance, Davis, Raymond, Lehman Brothers "Overview of Post -Peso Crisis Mexican Corporate Restructurings and Lessons Learned;" JP Morgan, Huh YongHak "Vitro: A Case of Proactive Restructuring;" Barents Group LLC, Emilio Sanchez Santiago "Restructuring of a Financial Intermediary: Orion Leasing Corporation."