

# CORPORATE RESCUE MECHANISMS



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The corporate rescue mechanism is governed by the Malaysian Companies Act, 2016 and it provides a legal framework for financially distressed companies to restructure and rehabilitate their operations and finances. This will provide a chance for the companies to preserve their business, saving jobs and avoid liquidation.

Under the corporate rescue mechanism, companies may apply for moratorium. During the moratorium period, creditors are refrained from taking any legal action against them. Thus, providing a breathing space for companies and allowing them to focus on restructuring and rehabilitating their operations and financials without having to face the imminent threat of being wound up by their creditors.

The corporate rescue mechanism aims to protect the interest of all stakeholders, which include, the company, creditors and shareholders while providing a structured and transparent process for the financially distressed companies to ride out the storm.



# CORPORATE RESCUE MECHANISMS (CONT.)

The corporate rescue mechanisms in Malaysia are as follows:

## 1. Corporate Voluntary Arrangement (CVA)

CVA is only applicable to private companies which have not created any charges over its properties. It is an arrangement between the financially distressed company and its creditors to restructure its debt. The process involves the appointment of a nominee who will work with the company and its creditors to develop a debt restructuring proposal. The proposal must be approved by a majority of the company's creditors and the court before it can take effect.

Once the CVA is approved, the company is required to adhere to the terms of the scheme strictly.

CVA provides a less formal and more flexible debt restructuring process. It allows the company to continue operating while undergoing the restructuring process which can help preserve employment and maintain value for all stakeholders.

## 2. Judicial Management (JM)

JM is a court-supervised process that allows the financially distressed company to restructure its debts under the supervision of the Judicial Manager. The application must be supported by evidence that the company is insolvent or likely to become insolvent. Upon the appointment, the Judicial Manager will take control of the management of the company and will devise a viable restructuring scheme that will bring optimal returns to the creditors. The restructuring scheme must be approved by a majority of its creditors and the court before it can take effect.

JM provides a more structured and formal process for debt restructuring. It also restrain creditors to take legal action against the company during the restructuring process.

## 3. Scheme of Arrangement (SOA)

SOA is a court-approved agreement between the financially distressed company and its creditors or shareholders to restructure its debts or share capital.

The SOA process usually involves the company applying to court for a restraining order to restrain its creditors from taking any legal action against the company and to hold a court convened creditors meeting for the scheme creditors to consider and approve the company's proposed scheme of arrangement.

Once the order has been obtained, the company will work together with a financial consultant to develop a proposed debt/share capital restructuring scheme. The scheme must be approved by at least 75% of the creditors and shareholders in value and number before it can be submitted to the court for sanction.

Once the sanction is obtained, the company is required to adhere to the terms of the scheme strictly.

# COMMUNICATION

Should you have any queries or require more information, please do not hesitate to contact us.



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