



ข่าวธนาคารแห่งประเทศไทย

สำนักข่าวการธนาคารแห่งประเทศไทย โทร. ๒๕๒๖๖๘๘

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Joint Statement by the Ministry of Finance and the Bank of Thailand

Measures to Strengthen Confidence in the Financial Institution System

Thailand's economic slowdown, the resulting deterioration in the real estate sector, and the problem of non-performing loans of financial institutions have eroded public confidence in the financial position of many finance companies. To resolve this problem, the Ministry of Finance and the Bank of Thailand jointly implemented a progressive series of measures. Most recently, the Minister of Finance ordered 16 finance companies to suspend operations in order to resolve their financial positions while ensuring that promissory notes issued by these companies could be exchanged for the notes of Krungthai Thanakit Public Co. Ltd., if the holders so desired.

However, the weakened economy, coupled with the general lack of confidence among depositors and creditors, both domestic and foreign, have exacerbated the liquidity problem of a certain number of finance companies whose financial position eventually became too weak to be resolved solely by liquidity injections by the Financial Institution Development Fund (FIDF). Rumours about the stability of the country's financial institutions kept recurring.

To address the problem once and for all, the Ministry of Finance and the Bank of Thailand, in consultation with the International Monetary Fund (IMF), have agreed on a comprehensive package of measures urgently needed to boost confidence in the country's financial institution system and ensure full protection for domestic and foreign depositors and creditors.

The necessary policy framework involves the separation of companies facing imminent insolvency from the sound, according to the clear criteria based on the magnitude of their liquidity problem and the deterioration of capital funds as well as the size of non-performing loans. Finance companies thus determined to be facing such problem will be ordered to suspend operations and allowed time to resolve their problem and draft a rehabilitation plan, as was applied to the 16 finance companies.

As for the companies capable of continuing their normal business, the authorities will ensure full protection for both depositors and creditors by providing insurance coverage for the full amount of deposits and liabilities of these companies. It is expected that this measure will restore

confidence in the country's financial institution system, thus paving the way for rescue packages to be implemented in a systematic and efficient manner.

Companies Ordered to Suspend Operations

Companies ordered to suspend operations will be allowed to continue some business operations as necessary, as is the case for the previous 16 finance companies. However, the process of due diligence must be completed within 60 days, and a rehabilitation plan submitted within the same timeframe, to the Committee on Supervision of Merger or Transfer.

Holders of promissory notes and certificates of deposit issued by these companies will be allowed to decide whether to exchange their notes for the notes or certificates of deposit of the designated financial institution, i.e., Krung Thai Bank Public Co. Ltd., under the same terms and conditions as applied to the case where notes can be exchanged at Krungthai Thanakit Public Co. Ltd.

Bona fide creditors, both local and foreign, will also be protected through the right to exchange for notes or certificates of deposit, or arrange for new loan contracts with Krung Thai Bank Public Co. Ltd.

Insurance Guidelines

In insuring the deposits and liabilities of companies which can continue to conduct their normal business, the Government will designate the FIDF as insurer. In this regard, an account shall be set up separate from other operations of the FIDF and the **Government will be responsible for any financial obligations arising from this insurance undertaking.**

Financial institutions covered by this insurance scheme will include all commercial banks, finance companies, finance and securities companies, and credit foncier companies, which are not on the lists of companies ordered to suspend operations, announced today or earlier. Companies ordered to suspend operations and whose rehabilitation plans have subsequently been submitted and approved by the authorities, and permitted to resume operations, shall be eligible for the government insurance program.

In practice, when the insurance claims are made by depositors and creditors of insured companies at time of maturity, the FIDF will pay the full amount of principal and interest at the due date. However, the interest rate applied must not exceed the ceiling announced by the authorities.

The Ministry of Finance and the Bank of Thailand are positively certain that this measure will restore confidence in Thailand's financial institution

system as a whole and cease all rumours. Moreover, such measure will provide a permanent solution to the liquidity problem and subsequently underpin a full recovery of the economy. Depositors and creditors, both local and foreign, should thus be fully assured of the stability of the financial institution system.

Ministry of Finance
and Bank of Thailand
5 August 1997

**Details Pertaining to the Announcement on
Measures to Strengthen Confidence in the
Financial Institution System**

5 August 1997

**Principles Governing the Insurance of Companies Conducting
Normal Operations**

1. The Government will entrust the Financial Institution Development Fund (FIDF) to undertake the insurance operation. This operation must be separated from the normal account of the Fund, while the Government shall support the mobilization of funds as well as take full responsibility for the insurance scheme.
2. Insured financial institutions shall comprise all commercial banks, finance companies and credit foncier companies which have not been ordered to suspend operations today or earlier. Companies with acceptable rehabilitation plan which subsequently receive permission to resume their normal operation shall be eligible for Government insurance.
3. The insurance shall cover both principal and interest at the rate not exceeding the maximum set by the authorities.
4. The categories of bona fide depositors and creditors of financial institutions, both domestic and foreign, which the Government will insure are:
 - 4.1 All types of depositors, including holders of Negotiable Certificates of Deposit (NCD) and promissory notes;
 - 4.2 Creditors arising from the normal business operation of the particular financial institution, namely commercial banking, finance, securities and credit foncier businesses.

The following categories of depositors and creditors shall be excluded:

- (a) Depositors or creditors not acting in good faith or in the normal business practice;
- (b) Holders of debentures or convertible debentures or creditors of subordinated rights. Ineligibility for the

Government insurance shall not override the rights of depositors or creditors of this category under the Thai legal system; and

- (c) Depositors or creditors who are directors or related persons as stipulated in the Commercial Banking Act or Act on the Undertaking of Finance Companies, Securities Companies and Credit Foncier Companies, or management from the level of department director upward or equivalent of that particular financial institution, unless it can be verified that they are bona fide depositors or creditors.

Finance Companies Ordered to Suspend Operations

To enable companies whose operations are suspended to have some time to settle their affairs and lay down the groundwork for the rehabilitation process, the Minister of Finance, acting upon Article 26 quarter of the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business B.E. 2522, hereby issues the order for such companies to suspend their operations. Nevertheless, to protect the assets of such companies from further deteriorating, the companies are permitted to conduct certain operations, for example:

- (1) Debt collection and recovery;
- (2) Releasing of mortgage or pledges so as to transfer ownership and return collateral to borrowers which have completed all their repayments;
- (3) Receiving sales orders of margin customers in order to pay back their debts to the company, including allowing customers with no debt burden to be able to transfer securities deposited to other securities companies; and
- (4) Receiving payment for rights issues to service customers' subscriptions.

In the meantime, the company shall not redeem promissory notes, and shall not transfer or operate in a way that will depreciate the value of the assets of the company.

Measures to Protect bona fide Depositors and Creditors

Bona fide depositors of companies which have been ordered to suspend their operations, are given the choice to exchange their promissory notes and NCDs at the designated financial institution, namely Krung Thai Bank Public Company Limited. Criteria and conditions for the exchange of notes will be the same as those used for the exchange of the notes of the 16 finance companies for those of Krungthai Thanakit Public Co. Ltd., as follows:

- (1) Notes or NCDs with amount per holder of less than 1 million baht shall be redeemed upon 6 month maturity with interest;
- (2) Notes or NCDs with amount per holder above 1 million but not more than 10 million baht will be redeemed upon 3 year maturity with interest; and
- (3) Notes or NCDs with amount per holder above 10 million will be redeemed upon 5 year maturity with interest.

Regarding interest rates, Krung Thai Bank Public Co. Ltd. will announce the rates equal to those of Krungthai Thanakit Public Co. Ltd. Holders of notes or NCDs may request for a monthly or quarterly payment of interest. Holders of notes or NCD who wish to change them for cash will be allowed to discount the notes or sell the NCD. Alternatively, they may be used as collateral for loans from Krung Thai Bank Public Co. Ltd. or other financial institutions.

The exchange of notes or NCDs at Krung Thai Bank Public Co. Ltd. will be permitted as soon as the Bank's preparatory work is completed. The exchange will be available to holders of notes or NCDs as a first priority, followed by creditors. Notes which have earlier been availed by the FIDF shall be redeemed at the FIDF through issuing companies as normally practiced.

Bona fide creditors, both domestic and foreign, of finance companies which have been ordered to suspend their operations, will also have the rights to exchange notes or NCDs or arrange for a new borrowing contract with Krung Thai Bank Public Co. Ltd.. Period of redemption shall be the same as those mentioned above. Interest will be set by Krung Thai Bank Public Co. Ltd., and an announcement will be made for creditors to register the amount of credit owed to them.

Guidelines for the Submission of Rehabilitation Plans of Companies Ordered to Suspend their Operations

Companies which have been ordered to suspend operations must follow the following procedures:

- (1) Apply to the Committee on Supervision of Merger or Transfer for approval to designate a person to undertake the due diligence process within 7 days;
- (2) The due diligence process must be completed within 60 days and the company must submit the rehabilitation plan to the Committee within that timeframe; and
- (3) Upon receipt of the rehabilitation plan, the Committee will start negotiations with a new partner or related parties to determine a final outcome as soon as possible.

List of 42 financial institutions that have been ordered to suspend operations

1. Chao Phaya Finance and Securities Co.,Ltd.
2. Sri Dhana Finance and Securities Public Co.,Ltd.
3. Thai Financial Syndicate Public Co.,Ltd.
4. Thanapol Finance and Securities Public Co.,Ltd.
5. Thai Rung Rueng Finance and Securities Co.,Ltd.
6. Cathay Trust Co.,Ltd.
7. Asia Financial Syndicate Co.,Ltd.
8. Krung Thai Finance and Securities Co.,Ltd.
9. Thanasin Finance Co.,Ltd.
10. Thai Finance and Securites Co.,Ltd
11. Wall Street Finance and Securities Public Co.,Ltd
12. Siam City Credit Finance and Securities Public Co.,Ltd.
13. Premier Finance and Securities Co.,Ltd.
14. Bangkok Finance Co.,Ltd.
15. Multi-Credit Corporation of Thailand Public Company Limited
16. SCF Finance and Securities Public Co.,Ltd
17. Lila Finance and Securities Co.,Ltd
18. Chatiphaibul Finance Co.,Ltd
19. Siam City Syndicate Finance and Securities Co.,Ltd
20. Nithipat Capital Public Co.,Ltd.
21. Ekkapat Finance and Securities Co.,Ltd.
22. Thai Tanakorn Finance Public Co.,Ltd.
23. Poonpipat Finance and Securities Co.,Ltd.
24. Pacific Finance and Securities Co.,Ltd.
25. Bara Finance and Securities Public Co.,Ltd.
26. Kiatnakin Finance and Securities Public Co.,Ltd
27. Thai Thamrong Finance and Securities Co.,Ltd.
28. Inter Credit and Trust Co.,Ltd.
29. SITCA Investment and Securities Public Co.,Ltd.
30. First Bangkok City Finance Co.,Ltd.
31. Teerachai Trust Corp.,Ltd.
32. Thanasap Finance and Securities Co.,Ltd.
33. Muang Thong Trust Co.,Ltd.
34. Siam Commercial Trust Co.,Ltd.
35. Metropolis Trust and Securities Co.,Ltd.
36. Thanamass Finance Co.,Ltd
37. Bangkok Investment Public Co.,Ltd.
38. Dhana Nakorn Finance and Securites Co.,Ltd.
39. Union Finance Co.,Ltd.
40. Thaimex Finance and Securities Public Co.,Ltd.
41. Cathay Finance and Securities Public Co.,Ltd.
42. Thai-Oversea Trust Co.,Ltd.