

Box 1. Updated Financial Sector Reform Agenda

Policy Action	Status/Target Date
I. Loan collection and asset recovery	
<p>1. State banks and AMU</p> <ul style="list-style-type: none"> • Complete setting monthly asset collection targets for all banks. • Identify and publicly invite 20 largest consolidated nonperforming borrowers of each state and IBRA bank and the AMU for negotiations. • Develop resolution strategies for largest borrowers. • Take appropriate legal actions against recalcitrant borrowers. <p>2. IBRA</p> <ul style="list-style-type: none"> • Draw up quarterly timetable for the resolution of AMU and other assets through March 2000. • Complete classification of assets by resolution strategy (sale, foreclosure, or negotiated restructuring). • Complete transfers of shareholders' assets from 1998 BTO and BBO banks to holding companies. • Begin retaining private sector specialists to assist with loan recoveries. 	<p>June 30. Initiated.</p> <p>June 30. August 30.</p> <p>June 30.</p> <p>June 30.</p> <p>June 30.</p> <p>June 30.</p>
II. State Bank and IBRA Banks restructuring	
<p>1. Bank Mandiri</p> <ul style="list-style-type: none"> • Implement voluntary severance scheme for staff of component banks. • Establish centralized treasury unit and credit function. • Include international bank in management of loan recovery, and sign performance contracts with top management, incorporating collection targets. • Recapitalize Bank Mandiri in line with progress in operational and financial restructuring. 	<p>On track; to be completed by March 31, 2000 Treasury already centralized; large corporate credits to be centralized by end-May. May 28.</p> <p>May 1999-March 2000.</p>
<p>2. Other state banks (BNI, BRI, and BTN):</p> <ul style="list-style-type: none"> • Strengthen top management. • Engage international firms to provide management and advisory services. • Include international bank in management of loan recovery. • Prepare business plans, in consultation with advisors. • Sign performance contracts with top management. • Recapitalize in line with progress in restructuring. 	<p>Underway. June 30</p> <p>June 30. August 15.* August 30.* September 1999-March 2000</p>

Box 2. Loan Recovery Strategy for the 20 Largest Nonperforming Borrowers of Each of the 7 State Banks, the 12 IBRA Banks, and IBRA's AMU

Institutional framework (May 1999)

- Establish loan recovery unit in each bank and start setting monthly recovery targets.
- Intensify loan collection efforts focused on the 20 largest borrowers of each bank.
- Establish interagency committee chaired by Ministry of Finance on loan recovery to ensure consistent and coordinated approach to loan recovery and restructuring.
- Complete transfer of all loan documentation (on transferred assets) to IBRA.
- Sign agreement between IBRA and state banks regarding custodian role for original collateral document.

Development of strategy (May 1999)

- Identify and complete documentation of 20 largest borrowers by each bank.
- Consolidate accounts by borrowing group.
- Classify groups into one of four categories based on financial prospects and expected degree of cooperation, and differentiate resolution strategy accordingly.
- Finalize monthly loan recovery targets for each bank and the AMU.
- Prioritize cases by size of group debt.

Implementation of strategy

June 1999

- By June 1, publicly invite borrowing groups to resume debt service or agree to start negotiation within two weeks.
- Form creditor committees, with external creditors, in accordance with Jakarta Initiative.
- Recommend stand still, when appropriate.
- Appoint financial advisors, auditors, and legal advisors to help develop strategies.
- Start due diligence.
- Publish names of borrowing groups who do not cooperate.
- Start restructuring negotiations.

August 1999

- Establish timetable for remaining steps of debt negotiation or take appropriate legal action (including bankruptcy filings) for non-cooperating borrowing group.
- Review strategy with the IMF, World Bank, and the AsDB.
- Repeat above strategy for the next 20 largest nonperforming borrowers of each bank.

Box 3. Updated Corporate Restructuring Agenda

Corporate Restructuring	Target Date
Issue consolidated Directorate General Circular on tax treatment of corporate restructuring and Ministry of Finance decree on tax treatment of land/buildings transfer.	May 28
Conduct high-level meeting of member agencies of one-stop facilitation process, formulate overall strategy, and establish rules and procedures for approval of regulatory filings.	Initiated
Complete conditions for effectiveness of World Bank technical assistance loan.	May 28
Retain at least 20 facilitators for Jakarta Initiative Task Force (JITF).	June 30
Submit to Parliament arbitration and secured transactions laws.	Done

Box 4. Updated Bankruptcy Reform Agenda

Bankruptcy Reform	Target Date
Sign into law new anti-KKN (corruption, collusion and nepotism) legislation.	May 28
Issue decrees and regulations to implement law.	June 30
Issue Steering Committee's proposed procedures for assignment of ad hoc judges to actual cases before the Commercial Court.	June
Implement judicial salary proposal of the Commercial Court Steering Committee.	June

Policy Action	Status/Target Date
<p>3. Original BTO banks (BCA, Danamon, PDFCI, Tiara)</p> <ul style="list-style-type: none"> • Finalize acceptable business plans for all four banks. • Sign performance-based management and regulatory contracts for BCA and Danamon. • Legally merge PDFCI into Danamon. • Operationally merge PDFCI into Danamon. • Resolve Bank Tiara. • Offer BCA and Danamon for sale. 	<p>June 30. July 15. July 31. September 30. After midyear. By March 2000.</p>
<p>4. New BTO banks (March 13)</p> <ul style="list-style-type: none"> • Commence negotiations for settlements of connected lending with former controlling shareholders. • Remove majority shareholders rights. • Develop least cost resolution strategies, excluding stand-alone recapitalization. 	<p>May 28. Effectively done. July 31.</p>
III. Private bank restructuring	
<p>1. Recapitalization of viable private banks</p> <ul style="list-style-type: none"> • Settle eligible interbank claims. • Sign recapitalization agreements. • Issue government bonds to banks whose private owners have provided their necessary capital share on original estimates. • Issue additional bonds to complete recapitalization to the amounts specified in the updated financial reviews by international auditors together with additional private capital. 	<p>May 28. May 28 May 28. June 30.</p>
<p>2. Comprehensive review of A category banks</p> <ul style="list-style-type: none"> • Ensure that all owners, managers and directors of A-category banks conform to the fit and proper test. • Take appropriate action against individuals who have failed the fit and proper test (by violating laws or BI regulations). • Complete review of business plans. 	<p>July 31.* July 31. May 28.</p>
IV. Legal, Regulatory, and Supervisory Framework	
<ul style="list-style-type: none"> • Establish the Independent Review Committee for IBRA. • Sign implementing regulations for Banking Law amendment. • Complete strategic plan for strengthening BI's regulatory, supervisory, and examination activities. • Complete detailed review of banking law and regulations. • Issue new prudential regulations on commercial banks, foreign branches, license revocation and bank liquidation. • Complete diagnosis of the offsite supervision system. 	<p>Done. Done. June 30. September 30. September 30. September 30.</p>

*Structural benchmark.